## PRESS OPINIONS.—*Continued.*

Investors may read with profit. The system of distributing capital is well explained.—*Sunday Times*, September 8, 1907.

The information will be found of use by all persons having the management of money.—*Scotsman*, September 16, 1907.

Mr. Harley has chosen the title of this handy little volume for the sake of brevity, and mentions in a short preface that his aim and object is to show how to invest and safeguard capital. The author concludes with sound advice to investors who wish to obtain a satisfactory income from investments with safety of capital —*Glasgow Herald*, September 18, 1907.

A sensible review of the method of spreading sound investment over as wide an area as possible.—*Sheffield Daily Independent*, October 4, 1907.

Contains some good advice for investors, the principal point being that their capital should be spread over a world-wide area and not confined to any one country.—*Gloucester Citizen*, September 28, 1907.

"Safety of Capital" can be recommended as a storehouse of words of wisdom.—*Mammon*, September 18, 1907.

The subjects dealt with are methods of investment, the study of reports, balance-sheets and prospectuses, and the ways of the London Stock Exchange.—*Financier*, October 1, 1907.

Will doubtless prove useful to many —*Border Counties Advertiser*, October 2, 1907.

An excellent book, which may be read with advantage by all who are interested in the investment of capital.—*Belfast Evening Telegraph*, October 2, 1907.

A useful book for trustees and people having money to invest. It is full of good, sound advice, and gives a lot of useful hints that can be read with profit, even by experienced investors.—*Midland Counties Express*, October 5, 1907.

The brevity of both page and title will not be found to be its sole wisdom Avoiding the slang and jargon of the Stock Exchange, Mr. Harley writes in the simplest language, and very properly places special emphasis on the fact that safety of capital is of even greater importance than magnitude of yield.—*Cork Constitution*, October 5, 1907.

As a method of safeguarding capital, is a book that can certainly be read with advantage by large and small investors.—*Standard*, October 15, 1907.

Deals in an intelligent manner with the method of investing and safeguarding capital, and should be useful to investors.—*Belfast News Letter*, October 10, 1907.

A treatise on the investment of capital, dealing with the art and science of investment, the increase of income of trust investments, the classification of securities, the Stock Exchange, and the study of commercial reports, balance sheets and prospectuses.—*Oxford Review*, October 21, 1907.

Contains information which may prevent small or large capitalists from investing their money foolishly and with risk.—*Surrey Advertiser and County Times*, October 19, 1907.

Covers practically all the ground of investment in a well-informed and entirely praiseworthy fashion. The point (of international distribution) is argued so freshly and even lucidly, that it is well worth the careful consideration of most investors.—*Northern Whig*, October 8, 1907.

# SAFETY OF CAPITAL.

PRINTED BY J. SKINNER AND CO. LTD., EDINBURGH

# SAFETY OF

# CAPITAL

BY

E. M. HARLEY.

*SIXTH EDITION.*

1921

(*First Edition published in the year* 1907)

LONDON

MORTIMER, HARLEY & CO., LTD.,

LLOYDS BANK BUILDINGS,

ST. JAMES'S STREET, LONDON, S.W. 1.

*"Fast bind, fast find,"*

*A proverb never stale to thrifty mind.*

MERCHANT OF VENICE, Act II., Scene 5.

# PREFACE.

In writing this book I had considerable misgivings as to how it would be received by the public, but the press having been unanimous in recommending the work as being sound in its principles, and one which should prove of assistance to investors in the protection of their capital, it may not be inopportune, in introducing the sixth edition, to mention the sources from which I have gained my experience. This experience is my justification for the expression of my views as to the only method of treating capital in order to secure its stability, while at the same time it enables me to point out the many pitfalls which beset those who are fortunate enough to be investors. I was for many years in one of the principal Scotch banks, for five years manager of one of its important branches. A considerable portion of my time in the bank was spent in the

Secretary's department, or what might be termed "behind the scenes." Advances were arranged for clients against their securities, and here all stocks deposited for safe keeping were received. My experience in the bank lasted from 1882 to 1897. In the latter year I left the bank to take up the position of manager of a large Investment Company, one of the features of whose business was to give advice to investors. In short, I may say that millions of pounds of capital have passed through my hands, and in investment lists alone which have come directly under my notice, the amount equals close on forty millions spread over many hundreds of lists. I think it will be admitted that this is a unique and substantial record, and I can only hope that my work will be found up to the standard expected under the circumstances. My endeavour to make the work throughout clear and intelligible to the inexperienced in financial matters may perhaps not be its least recommendation.

E. M. H.

*August* 1921.

# CONTENTS.

# CHAPTER I.

## THE MISTAKES OF INVESTORS.

As some are born great, others achieve greatness, and some have greatness thrust upon them, so is it with riches; some are born rich, others acquire riches, and some succeed to them. But, to those fortunate enough to come under any of these three categories, there comes also the task or burden of safeguarding and preserving their fortune, and it is with a view of offering assistance in this task, and of helping to lighten this burden, that I have endeavoured to put into shape in this little book the results of a long and scientific study of the subject, "Safety of Capital."

In the event of a fortune being inherited, if the possessor be a person with no knowledge of business, he may either accept and retain his share of the estate in the form

of the securities which the trustees held, without any regard to their suitability or desirability; or if the legacy be in money, in all likelihood he will often invest it without proper care and advice. In either case the probability is, as will hereafter be shown, that the investments will turn out at the best to be unsatisfactory, or may result in a heavy and perhaps irretrievable loss of a serious portion of the capital. In the case of acquired fortunes, it is a curious but well-authenticated fact, as proved by many instances which have come under my notice, that the man who has shown great ability and capacity in the making and saving of money has shown a sad lack of judgment in its investment. If we consider the matter for a moment the reason is not far to seek. The professional man has neither the time nor probably the opportunities for studying the question, and when he has available funds, invests them in the type of security popular at the moment, such as

Water, Brewery, Gas, Electric Lighting, Oil, Rubber or Motor Companies' undertakings, in fact in whatever securities form the popular topic of conversation, or which the newspapers are writing about at that particular time. The part which the Money Market column of the daily papers plays in the matter of the selection of a suitable security for investment is important. Attracted by an article in his morning paper in regard to a certain security, the investor will approach his banker, lawyer, or broker, and *after mentioning that he has money to invest* ask their opinion of the security. In nine cases out of ten, if the stock is any good at all, he will receive a guarded reply, "Considered sound" or "Fairly good," and will doubtless at once give the order to buy.

The following is a very simple test by which an investor can easily ascertain whether the advice given is good or indifferent. No adviser should influence an investor to place his money in any security

without asking if he is already interested in similar securities, the interests of which being identical would clash with those of the new security, and cause the investor to place too large an amount of capital in one class of investment. If the reply is, "You might invest in this security, assuming you are not already too much interested in that quarter," he may be sure that the adviser is interested in his client's welfare, and is likely to earn his commission before he has tendered his advice.

The majority of investors first get their inspiration from the morning paper. It is not difficult to at once point out and prove that *the Speculator may get his information here, but not the investor.* We will take for our example a leading paper, the *Daily* ——. The quoted securities in this paper are as follows :—

| | |
|---|---|
| **Government Stocks,** . . . . . | **21** |
| **Home Railways,** . . . . . . | **26** |
| **Colonial and Foreign Railways,** . . . | **20** |

| | |
|---|---|
| **Foreign Stocks,** | **18** |
| **Shipping,** | **8** |
| **Motors,** | **14** |
| **Iron, Coal and Steel,** | **21** |
| **Insurance,** | **18** |
| **Breweries,** | **12** |
| **Nitrates,** | **14** |
| **Textiles,** | **12** |
| **Other Industrials,** | **59** |
| **Catering and Stores,** | **23** |
| **Oil Shares,** | **28** |
| **Rubber and Tea Shares,** | **51** |
| **Mines,** | **112** |
| | **457** |

It will be seen that Shares, in which most of the gambling on the Stock Exchange is indulged in, take first place with 191 (*i.e.* Mining, Rubber and Oil) quotations, nearly half their space; next are the Shares of Commercial Companies, also very speculative—in fact, all the quotations are practically of fashionable securities likely to supply attractive reading matter on account of their sensational movements, *but not suitable to the investor.*

For the reading matter the headlines of the articles are also of the speculative order, as follows :—

**Home Railways Dull.**
**Fall in Oil Shares.**
**Industrial Leaders inclined to Rally.**
**Hudson Bays Lower.**
**Sliding Kaffirs.**
**Rubbers Dull.**
**Burmah Oil Result.**

Practically all the financial news and quotations in the morning and evening papers are on the same lines.

Now in regard to the absurdity of the adoption of off-hand advice, attention might be drawn to the fact that the London Stock Exchange Official List and Unofficial Lists contain 8400 quotations, *not* 457. It would of course be impossible for any morning paper to quote anything like all of them, and it is in their own interests to make the selection as attractive as possible from a reading point of view.

But to take the matter a little further,

it will be noticed that whilst 26 Home Railway Ordinary and Preference Stocks are quoted, *no notice is taken of the Debenture and Guaranteed Stocks, which rank in front of both Ordinary and Preference*, and which number 145.

No Americans whatever are specifically quoted, and under Colonial and Foreign Railways only 20 Ordinary and Preferred Stocks are priced, and here again no notice is taken of the prior securities, of which there are no less than 245. In fact the securities which, in most cases, should be left severely alone by investors are pictured in various lights, whilst first grade securities are omitted.

The business man, in all probability, invests his savings in the shares of companies carrying on kindred trades, with the result that, if perchance his own trade falls off, he finds all his investments declining in sympathy.

During a financial experience of over thirty

years there has been great opportunity of making a close study of the idiosyncrasies of the investor. As a result of that study it is safe to give the opinion that even capable business men require the services of a skilled expert in the matter of their investments, if they wish to secure that ease of mind which will enable them to sleep in peace with the certainty of finding the bulk of their capital intact when they awake, no matter what disasters may be reported in the morning paper which have occurred overnight.

Lists of investments to the value of many millions, comprising thousands of different securities, have come under my notice for criticism and advice. *Ninety-nine* per cent. of these lists showed losses in capital, many of them being prodigious.

In the case of inherited fortunes, it more than often happens that after valuation has been made for probate, the securities held by the estate are divided amongst the bene-

ficiaries in a more or less haphazard fashion, without regard to the proportion of each security which should be allotted to each beneficiary, or to the relative intrinsic value of the allotments of securities so made.

On the theory of "*ex uno disce omnes,*" one instance in this case should be sufficient. A client submitted for criticism a list of securities which he had taken over on the winding up of an estate, under which he was a beneficiary. The total value of his share was £20,000, and of this amount it was found that £15,000 was invested in the Great Northern Railway 4 per cent. Preferred Ordinary Stock, the remainder being in about seven or eight different securities. The inadvisability of having so large a proportion of his capital in one security was pointed out, even although that security might be described as fairly sound. Accepting this view of the position, he requested that a rearrangement of the investments should

be submitted, which met with his approval. The capital was as far as possible equally divided in twenty different securities of the value of £1000. This list was spread over world-wide securities, embracing first grade Investments, such as Foreign and Municipal Loans, Bonds and Debentures on an International basis, and the income was increased by nearly £200 a year, it being possible to obtain an average yield from International securities greater by 1 per cent. than from English investments of the same class.

In former days the ordinary British investor, partly from a spirit of patriotism, confined his investments to his own country, or at the outside, occasionally ventured his fortune in India and the Colonies. To-day, however, with the vastly increased opportunities of travel, the facility of international communication, and owing to the extraordinary industrial development of America, North, Central and South, the field of operations is greatly widened, thus afford-

ing increased opportunities of spreading investments.

To show the result of having confined one's investments entirely within the area of Great Britain, the following tables, showing the fluctuations in the value of ten representative stocks from 1897 to 1921, will be found interesting and instructive.

[TABLES.

## EXAMPLE OF CAPITAL INVESTED SOLELY IN GREAT BRITAIN.

| Name of Security. | Amount of Stock Bought. | Price 1897. | Value 1897. | Price 1907. | Value 1907 | Loss. |
|---|---|---|---|---|---|---|
| Consols, $2\frac{1}{2}$ % ($2\frac{3}{4}$ % from 1889 to 1903), | £1,000 | $113\frac{7}{8}$ | £1,138 | $82\frac{1}{2}$ | £825 | £313 |
| London County 3 per cent. Stock, . . | 1,000 | $115\frac{7}{8}$ | 1,159 | 87 | 870 | 289 |
| London and North Western Ordinary Stock, | 1,000 | $209\frac{3}{4}$ | 2,097 | $139\frac{1}{2}$ | 1,395 | 702 |
| Midland Railway Preferred Ordinary Stock, . | 1,000 | $88\frac{3}{4}$ | 887 | 63 | 630 | 257 |
| London and North Western 3 per cent. Debenture Stock, . . | 1,000 | 122 | 1,220 | 88 | 880 | 340 |
| Bank of England Stock, . . | 1,000 | $351\frac{1}{2}$ | 3,515 | 255 | 2,550 | 965 |
| Bass, Ratcliff & Gretton 5 per cent. Preference, | 1,000 | 156 | 1,560 | 98 | 980 | 580 |
| Gas, Light & Coke Co. 3 per cent. Irredeemable Debenture Stock, . . | 1,000 | 100 | 1,000 | 83 | 830 | 170 |
| Aerated Bread Co. . . . | 200 Shares | 10 | 2,000 | 5 | 1,000 | 1,000 |
| Armstrong, Whitworth & Co. . . | 300 Shares | $3\frac{1}{16}$ | 918 | $2\frac{27}{32}$ | 853 | 65 |
| Total Value, . . | | | £15,494 | — | £10,813 | £4,681 loss. |

*Note.*—The above is reproduced from a former edition and continued to date below.

## EXAMPLE OF CAPITAL INVESTED SOLELY IN GREAT BRITAIN—(*continued*).

| Name of Security. | Amount of Stock Bought. | Price 1907. | Value 1907. | Price 1921. | Value 1921. | Loss. |
|---|---|---|---|---|---|---|
| Consols, $2\frac{1}{2}$ % ($2\frac{3}{4}$ % from 1889 to 1903), | £1,000 | $82\frac{1}{2}$ | £825 | £45 | £450 | £375 |
| London County 3 per cent. Stock, . . | 1,000 | 87 | 870 | 52 | 520 | 350 |
| London and North Western Ordinary Stock, | 1,000 | $139\frac{1}{2}$ | 1,395 | 69 | 690 | 705 |
| Midland Railway Preferred Ordinary Stock, . | 1,000 | 63 | 630 | 31 | 310 | 320 |
| London and North Western 3 per cent. Debenture Stock, . . . . | 1,000 | 88 | 880 | 51 | 510 | 370 |
| Bank of England Stock, . . | 1,000 | 255 | 2,550 | 179 | 1,790 | 760 |
| Bass, Ratcliff & Gretton 5 per cent. Preference, | 1,000 | 98 | 980 | 73 | 730 | 250 |
| Gas, Light & Coke Co. 3 per cent. Irredeemable Debenture Stock, . . | 1,000 | 83 | 830 | 59 | 590 | 240 |
| Aërated Bread Co. . . . | 200 Shares | 5 | 1,000 | $1\frac{3}{8}$ | 275 | 625 |
| Armstrong, Whitworth & Co . | 300 Shares | $2\frac{27}{32}$ | 853 | 16/ | 240 | 613 |
| TOTAL VALUE, . . | | | £10,813 | — | £6,205 | £4,608 loss. |

The first table shows that on a capital investment of a sum of £15,494, made in the year 1897, there was a loss in ten years of no less than £4681.*

The second table, supplementary to the first, giving the valuation at the present date (August 1921) shows a further loss of £4608, making a total capital loss of £9289.

Whether a fortune be inherited or acquired it is no easy matter to treat it in such a manner so as to protect it from depreciating in capital value, and at the same time ensure a competent income. It is here that the services of experts who have made a scientific study of the matter should be sought, just as one seeks the services of doctors in sickness, or lawyers when a legal difficulty arises.

We will assume that a man becomes possessed of a fortune of say £10,000. Before the war, he would expect to derive

* Valuation was made about August 1907, being for ten years, the first edition being printed then.

an income of about £500 per annum, but now the rate of interest has greatly increased, and it would be safe to infer that he will not be content with an income of less than £700 to £800 a year. There are then three courses open to him. If he has no one dependent on him, and no one to whom he wishes to leave his money, he may part with his capital for ever by purchasing an annuity, which, if he be of middle age or over, will yield him a better return. If he be so foolishly inclined, and there is no accounting for strange eccentricities in the handling of money, he may place it in a bank, drawing out £500 each year, which, allowing for the small rate of interest on money placed on deposit,* would exhaust his capital and leave him with nothing in about twenty-five to thirty years' time. The third and sensible plan is to invest the capital on a 7 to 8 per cent. basis, and if a

* At the time of writing, capital on deposit receipt yields £4 per cent.

correct method be adopted at the outset, the amount being evenly distributed in sound securities over a world-wide area, the position would be that of drawing £700 to £800 annually, the capital remaining undisturbed.

At the present time it is quite possible to compile a list of investments yielding 7 to 8 per cent. from which almost all risk would be eliminated, and for such a list it is unnecessary to go beyond Foreign and Municipal loans, Bonds and Debentures, such securities, of course, being of the highest class. This list might also be made to include Preference shares, if such shares form a first charge on the entire assets of the Company, there being no Debentures ranking in front of them. Only in special circumstances should Ordinary shares be indulged in, for instance, by those who inherit money later on and wish at the moment the greatest income possible.

After making the rule that only the highest

class of securities should be considered, it is extremely difficult to pick and choose amongst the many thousands that are available. It therefore stands to reason that it is absolutely essential that the choice should be made by those who can examine and analyse Balance-sheets, Reports and other particulars on a thoroughly business method.

To give some idea of the difficulties to be contended with, we cannot do better than relate the following particulars of another case which was recently submitted.

At the time of the boom in Brewery issues, a client, on his own initiative, had invested some money in what were termed First Mortgage 4½ per cent. Debentures of a certain brewery. One would imagine that "*First* Mortgage Debentures" should be in the soundest position of any securities of the company. On investigating the matter, however, it was found that there were *first* and *second* Mortgage Debentures, the price of the

former standing about 80 and the latter about 50. When the security for the debentures was examined, it was found that the first mortgage debentures, which were issued many years ago, were secured by a first charge on the Brewery alone. The second mortgage debentures were issued at the time when all brewery companies were competing in the purchase of "tied houses," and were secured by a first charge over the "tied houses"* purchased by this particular company. Having given the facts, it is not difficult to reason out the obvious position of the two classes of debenture holders in the event of default in payment of interest. The second debenture holders could foreclose, take possession of the "tied houses," and, as there is always a ready market, sell them and recoup themselves to the amount, probably of about 75 per cent. of the face value of

* "Tied houses."—Public houses which are purchased by a brewery in order to control the whole supply of their beer.

the debentures. On the other hand, what would be left to the first mortgage holders? The "tied houses" having been sold, where would the trade of the brewery come from? The first Mortgage Debenture holders would be left in possession of a brewery with no customers, and with neither the site nor buildings of any great value.

There is a right method and a wrong method in investing, and while it is quite possible to follow the former, how many people follow any at all? In every case of lists submitted for criticism there are mistakes, and so far no list out of thousands submitted, judged from a thoroughly scientific point of view, could be considered perfect.

The few lists which occasionally come to hand, having the capital invested only partly in England, the balance being spread over the Continent, Asia, America and other countries, are the *only ones* which show slight depreciation or any appreciation in the value of the capital.

Were it not pitiful, it might cause amusement to observe the ignorance of people who imagine they hold perfect lists of investments.

The mistakes of investors are commonly made by placing too much capital in one security, or in two or more of a similar nature, by investing in shares at a premium, or with a liability attached to them. It may be that they have purchased shares or debentures at a high premium, the fact having been forgotten that only the par value is secured and not the premium, and lastly, the necessity of spreading the capital in investments over all the world has never been taken into consideration at all. An Investor is a person who possesses Capital, and, wishing to keep it intact, methodically invests it in sound securities in order to provide an income. He never speculates by buying shares with liabilities attached to them, or in Bonds or Debentures at high premiums. He also constantly gives his securities the attention

they deserve, and carefully collects and keeps accounts of his dividends.

How many people are really investors?

Having dealt with the mistakes of investors, I shall endeavour to point out the class of securities which should be taken into consideration, and also the countries over which these securities should be spread, in order to arrive at the best scheme of investment, based on the desirability of a reasonable income and safety of capital.

## CHAPTER II.

### THE SCIENCE OF INVESTING.

In the last chapter a general outline has been given of the ordinary method, or rather want of method, of the average investor, and it has been suggested that by careful study one may arrive at the point where in all human probability the *method of investing* may be reduced to a science.

In order to demonstrate clearly, let us imagine that the investor has a sum of £16,000 at disposal, and show how this amount of capital should be dealt with in order to place it in a practically unassailable position. The following points given in detail show exactly what should be done in investing such an amount, and it will be seen from the examples that, however large or small the total capital may be which has to

be invested, this may be treated in the same manner in proportion.

In the first place, the amount to be invested in each security has to be settled, and it is advisable to have the sum equally divided into sixteen amounts of £1000 each, and these amounts invested in sixteen different securities, the reason for which will be seen later on when it is shown how they should be distributed. It has been found by experience that when this rule of having an equal amount in each security is not adhered to, the investor having placed a disproportionately large sum in one security, it is in many cases that very security which goes wrong. I can only explain the fact by presuming that the investor has been induced to purchase so large an amount of this particular security owing to some superficial attraction, such as low price and big yield, and has not carefully studied all the facts in connection with it, or perhaps from want of business knowledge has not been able to

do so, and has seen it referred to in his daily paper as likely to rise in value, and has invested without grasping the fact that the paper possibly refers to the near future, and he is looking for a permanent investment.

Having decided as to the subdivision of the sum to be invested, there arises the much more difficult problem as to what rules should be observed in the spreading of these investments over securities IN MOST PARTS OF THE WORLD, so as to arrive at the solution of achieving "SAFETY OF CAPITAL."

We must portion out the countries of the world into divisions and subdivisions, and there must be shown good reasons for the method of such apportionment.

In the old Geographies the world was divided into the continents, Europe, Asia, Africa, America and Polynesia, but this division is of course useless for our purpose in these times. Wars and treaties have so changed the face of the old maps that a man not yet middle aged would hardly recognise

the boundaries of countries which he had been taught in his schooldays, even the few years of this century having made a vast alteration.

The result of a long study and experience makes it safe to state that the division of countries given below will be found to be the best suitable for the purpose of distributing the capital :—

1. Great Britain.
2. British Colonies.
3. The Continent of Europe.
4. Asia.
5. America (North).
6. America (Central).
7. America (South).
8. International.

Having fixed on these main divisions, we have now to consider how they are to be subdivided into groups, giving reasons for the manner of so grouping them. The following are the subdivisions :—

## SUBDIVISION OF COUNTRIES.

| | |
|---|---|
| 1. **Great Britain,** . | United Kingdom, India, Africa. |
| 2. **British Colonies,** . | Canada, Australia, New Zealand, the West Indies. |
| 3. **Europe,** . . . | France, Italy, Sweden, The Netherlands, Norway, Switzerland. |
| 4. **Asia,** . . . | China, Japan, Straits Settlements. |
| 5. **America (North),** . | United States. |
| 6. **America (Central),** . | States between the United States and Brazil. |
| 7. **America (South),** . | Argentina, Brazil, Chili. |
| 8. **International,** . | Shipping, Telegraph, and General International Companies having interests in various countries. |

The would-be investor should now carefully study this grouping of countries, and the reasons for placing them as shown. It is not proposed to refer to the internal affairs of each in regard to home politics, possible labour troubles, revolutions, the advance of socialism and the like, but to the effect on their securities in the event of war.

Bearing on this subject, we must go back some time. From 1870 to 1914 there had been no struggle between any two, what might be termed, enlightened nations. The Turco-Grecian War, the Chino-Japan War, the Phillipine War, were all struggles between nations either semi-civilised or unequal in strength and resources. The Boer War could not rightly be termed one between *two* enlightened nations equally opposed, neither could the Russo-Japan War, yet even to-day the effects of both these latter are being felt in the countries of the respective combatants, with the exception, of course, of present-day Russia.

Now let us consider the effects of the

titantic struggle from which the Allies have emerged victorious, with a view to the explanation of the grouping of countries for investment.

With the entrance of Great Britain on the side of France and Belgium, India was immediately concerned, and it will be remembered that not only were our own units in India immediately recalled, but the native regiments were the first colonial troops to be brought over and actively engaged in France.

Along then with Great Britain, India felt the effect, and this will always be the case in the event of future wars owing to the number of British troops retained there, and the general empirical status of that country.

To a certain extent this is also true of Africa, for, although the South Africans sent over a full division, this country is not sufficiently developed and populated with whites to be considered in the same group as other Colonies. Hence the grouping of India and Africa with Great Britain.

But in Canada, New Zealand and Australia we have a different proposition. Each of these Colonies raised, equipped, rationed and munitioned and paid their own individual armies and were fully responsible for them. The Canadian and Australasian navies each played their not inconsiderable part on the seas, and each of these countries is a self-supporting, self-governed, well-developed nation.

These three countries, then, were more or less able to look after themselves, hence they are put into a separate category, and since the West Indies is the only additional Colony which can be considered for investment purposes, it is added to them to form the second group.

The European War demonstrated clearly that all the countries of that continent will again be affected should further trouble arise, hence the grouping of all Continental countries under one heading, the third.

It can be said to be generally the case that, in the event of wars, the Stocks of

the actual combatants are adversely affected, but no great difference is felt in outside countries. Hence the Asiatic Group (a Japanese War would not affect other countries—unless Great Britain were dragged in on account of the Treaty) and the three American groups, which are self-explanatory for the same reasons.

The International division requires no explanation, beyond stating that it embraces such companies as Telegraph and Shipping, which have their business in or between various countries.

Having arrived at the basis of the division of countries, the amounts to be invested must be placed in the different securities of each, so that in each separate division there shall be two securities, which again will be in countries with distinct and separate political and commercial interests.

The following example, dealing with a supposed capital of £16,000, will explain how this may be accomplished :—

## DISTRIBUTION OF CAPITAL OVER VARIOUS COUNTRIES.

| | | |
|---|---|---|
| 1. | **Great Britain**, | £1000 in England, £1000 in India. |
| 2. | **British Colonies**, | £1000 in Canada, £1000 in Australia. |
| 3. | **Europe**, | £1000 in Norway, £1000 in Switzerland. |
| 4. | **Asia**, | £1000 in Japan, £1000 in Straits Settlements. |
| 5. | **America (North)**, | £1000 in New York, £1000 in Chicago. |
| 6. | **America (Central)**, | £1000 in Cuba, £1000 in Panama. |
| 7. | **America (South)**, | £1000 in Argentina, £1000 in Brazil. |
| 8. | **International**, | £1000 in Shipping Company, £1000 in Telegraph Company. |

If the reader will carefully study this table in the light of the explanation given above, he will find that the capital is so spread over a WORLD-WIDE AREA that any probable war or political and financial trouble should disturb him but little. At the worst only a fractional portion of his securities need be adversely affected. There is no war which does not benefit some country or countries other than those engaged in it, and therefore, in all probability, one if not more of his other securities would benefit to a great extent, though a small number might be adversely affected.

Having used the expression before, it may be again repeated here, that this is a basis of investment upon which the investor may sleep in peace. Or, if a metaphor may be used, the colouring of the picture is graded so nicely as to give pleasure and rest to the eye and mind, whereas most investors' lists present a picture which, being one broad blaze of crude colour, produces mental blindness and unrest.

Having decided in what proportions to invest the capital, and over what divisions these portions should be distributed, we have now to select the securities, and this is by far the most difficult task of all. In the first place, there are thousands of securities of which, from an investor's point of view, no notice need be taken, but after eliminating this class there still remain many thousands to be studied in order to make a selection of the most desirable, having regard to their safety, and the yield of interest to the investor.

For the purpose of such selection I have compiled for my private use, in book form, a list of the best stocks, with a full analysis of each. This book is kept closely up to date, showing at once whether any security submitted comes up to the highest standard.

In order to explain quite clearly, a copy of the form of analysis employed is given on the next page, from which the reader will see that every point is carefully noted.

## STOCK ANALYSIS FORM.

*Name of Stock to be analysed,... . .*

| | | | |
|---|---|---|---|
| 1. Name of Company and date of Incorporation, . . | | 9. Highest and lowest price, during last five years, . | |
| 2. Total Capital of Company, | | 10. Dividends last five years, . | |
| 3. Amount of Capital ranking in front of Stock under analysis, . . | | 11. Dates when Dividends are payable, . . . | |
| 4. Amount required to pay Dividend on above, . . | | 12. Reserve Fund, . . . | |
| 5. Amount of Capital ranking after Stock under analysis, | | 13. Amount carried forward as at last Balance-Sheet, . | |
| 6. Amount required to pay Dividend on above, . | | 14. Gross Profits, . . . | |
| 7. Price of Stock, . . . | | 15. Cash at Bank, . . . | |
| 8. Yield per cent. . . . | | 16. Remarks, . . . . | |

As will be seen from this form, the examination into the value and standing of each security is a most laborious undertaking, requiring sound judgment and experience and a strict adherence to most necessary rules for guidance.

All investors should adhere to the following rules in order to place their capital in the position of practically unassailable stability :—

I. See that the capital is evenly divided.

II. That the investments do not clash one with another, and that they yield, according to their class, a proper rate of interest.

III. Spread the capital evenly over various countries.

IV. Carefully watch prices from time to time and have periodical revaluations made.

V. Carefully examine all balance sheets or other papers as received.

VI. Be content to hold only first-grade securities such as government loans, bonds and debentures.

VII. Never entertain a security having a liability attached to it.

VIII. Never purchase a security at a high premium.

* Another consideration is the growth of taxation in recent years, and the still further demands which will be made on the British taxpayer in the near future leave little room for hope that those who are annually mulcted in a heavy tax on their incomes will find the burden lightened as time goes on. On the contrary, the ever increasing expenditure, which will necessitate the tapping of new sources of revenue, will, in all probability, bring about a still further

* *Author's Note.*—This portion, written in 1912, remains in order to show the correctness of the views expressed at that time. It can safely be said that the present 6s. in £ will be reduced by degrees to a much more reasonable level.

demand on the long suffering income tax payer; while it is little less than alarming to contemplate the demands which would be made on our incomes should the country unhappily be involved in a great war.

A well directed method of distribution of capital will, however, afford a valuable insurance against both the burden of heavy taxation and the grave contingency of war. The investor who has wisely placed a proportion of his investments in the high class securities of other nations is safeguarded against the risk of a ruinous depreciation affecting his entire capital. This consideration is, in itself, a powerful argument in favour of systematic distribution of capital, but there is yet another aspect of the case which must not be overlooked, that is the question of residence. With resources at his command beyond the seas, an investor with a well distributed investment list is in a position which will enable him to take up his residence, at will, in almost any part

of the world; and, as in certain countries there is very little tax on income, this impost would, to a great extent, be escaped, while the heavy tax on British incomes would only be levied on the proportion of capital invested in home securities.

The Great War has thoroughly proved—

1. That it was wise to evenly divide capital;
2. That it was wise to spread it over various countries;
3. That it was wise to hold only first grade securities;

and it will still be found wise for investors to conscientiously and determinedly carry out "The Science of Investing" in the way I have fully explained in this chapter. The League of Nations is no new thing—previous wars have ended with similar good resolutions and similar international arbitration courts which have been ineffective—and whether or not the present League is

able to enforce its decrees on nations suffering with grievances or martial ambition, this policy of investment will invariably be found to be the only one which thoroughly safeguards capital.

The next consideration is that of the various classes of securities, which will be dealt with in another chapter.

## CHAPTER III.

### DESCRIPTION AND CLASSIFICATION OF SECURITIES.

If this chapter appear to the initiated to be superfluous, it will no doubt prove useful for those who have little or no knowledge of business, and to whom the various descriptions of securities and all the jargon of the stock market are as a language not understood of the people. It is astonishing, considering the enormous number of investors in this country who derive their income from invested funds, how few of them have any intelligent appreciation of the source from which that income arises. They receive advice from their Banker, Lawyer or Broker, or from a friend who has been told of a "good thing," and make their purchase. Next they receive a contract, afterwards a transfer for signature, and in

due time a certificate, or a bond of some description, which they deposit with their Banker or in their strong box. They think no more about the matter, until, perhaps, one day they receive an apologetic letter from the secretary of the company in which they have invested, politely regretting that, " owing to such and such circumstances, your directors think it advisable to pay no dividend this half-year, &c. &c. &c." It is only when they receive this rude awakening that they begin to think they should make enquiries to find out what ought to be done; but the steed has been stolen, and perhaps it is now hardly worth while to lock the stable door.

Recently a letter was received, evidently from a well educated man, and, from the manner in which he wrote regarding his investments, an intelligent man, but in a postscript he added—" By the bye, in answering this letter you might explain exactly *what is a debenture?*" It is for such people that

the explanation of the various classes of securities and their relative value one to the other is described in the following glossary, so that the terms employed in designating these securities may be thoroughly understood.

*Consols.*—The consolidated stock or funded debt of the United Kingdom, sometimes called "Goschens," owing to the late Lord Goschen having been the Chancellor of Exchequer who carried out the Conversion Act of 1888, whereby the interest was reduced from 3 per cent. to $2\frac{3}{4}$ per cent., and later to $2\frac{1}{2}$ per cent.

*Bond.*—A receipt or certificate for a loan issued by governments or companies, and bearing a fixed rate of interest, redeemable in a given number of years.

A. *Bonds to Bearer* require no deed of transfer or assignment, but can be passed from hand to hand like bank notes. To each bond is attached a

sheet containing a number of coupons or tickets, bearing each an order for the payment of the interest at the due date. These coupons are cut off when due and are presented to the government or company's bankers or agents for payment.

B. *Currency Bond.*—A bond in the currency or money of the country in which it is issued. For instance, an American currency bond is in dollars, a French in francs, Japanese in yen, and so on.

Normal rates of exchange are:—

$500, American, equals £102 : 15s.
Francs 2500, French, equals £100.
Yen 1000, Japanese, ,, £102 : 1 : 8.

* In pre-war days an investor therefore buying £100 of a Japanese loan quoted in yen, paid £102 : 1 : 8 for 1000 yen, in selling

* Before the war, Bonds were issued with the French exchange printed on them.

he did exactly the same thing, realising 1000 yen, equivalent to £102 : 1 : 8. In the case of making a purchase of American and Canadian bonds, accumulated interest must be added, as this is the custom in Canada and the rule of the New York Stock Exchange. For instance, a 4 per cent. bond with coupons due 1st January and 1st July. If the purchase is made on 1st March three months' interest is accrued, which would be equal to 1 per cent., and this is generally added to the contract.

*Note.*—Investors on receiving Foreign Bonds should be careful to see that they bear the British Government stamp of £2 per £100 face value as required by Act of Parliament.

Violent changes in the rates of exchange have been experienced since the Armistice. This is inevitable and is one of the many aftermaths of war, and is caused by the very large amounts of paper money circulated by the Governments of each combatant country, together with the relative values of the obligations existing between them. Thus,

France owing us very considerable amounts, the exchange is much in our favour, and whereas before the war £100 was worth 2500 francs, at the time of writing it is worth 4700. Similarly we, owing money to the United States, instead of £100 being worth 486 dollars, it is worth only 370.

These rates must be adjusted before all-round trade and prosperity can be renewed. Investors, however, can benefit considerably, in some cases, from this state of affairs, but any investment should be made only after receiving full explanations from a competent source.

*Debenture Stock or Bond.*—Debentures are practically the form of receipt or acknowledgment of a loan to a company secured by a mortgage over its assets, and in almost all cases form a first charge over such assets. They bear a fixed rate of interest, and may be either permanent or redeemable at par, or at a premium in a fixed number of years. They may be issued

in the form of stock, transferable in the usual form, or in the form of bonds to bearer, in which case interest coupons are attached, as described above.

*Note.*—Investors should bear in mind that if they purchase Bonds or Debentures at a premium, and said Bonds or Debentures are redeemable at par, they lose the premium on such redemption.

*Guaranteed Stock.*—A stock issued by a company, and guaranteed by the company, by the assigning to the holders, as security, some of its assets, or it may be guaranteed by the Government of the country or by the Municipality of the town in which the company is situated, or by some other company which has an interest in the company issuing the stock.

*Preference Stock or Share.*—Such stock or share generally comes next after the debentures of a company, when there are debentures, and has a fixed rate of interest, and ranks for dividend before the ordinary stock. In some cases, when the profits of a company

are sufficient to pay a certain fixed dividend on the ordinary stock after the preference dividend has been paid, the surplus falls to be divided equally between the preference and ordinary shareholders. In such instances the preference stock of a successful company becomes very valuable, as not only is its position well secured, but it may from time to time earn a substantial bonus.

*Cumulative Preference Stock and Share.*—In the case of this class of security the benefit to the holder is, that if in any year or succession of years the dividend on the cumulative preference share be not earned, he is entitled to the arrears of dividend not paid, before any dividend is paid on other preference or ordinary shares.

*Ordinary Stock and Share.*—The position of the ordinary stock or share in a company is that of being last, but not always least or least important. When the balance-sheet of a company is struck and the profits are shown,

the debenture and preference shareholders having been paid their interest, then the whole surplus remains to the ordinary shareholder, to be divided as the directors may think fit.

The only exception is when, as we have explained under the heading of "preference stock," in some cases, after the ordinary shareholder has received a certain fixed amount by way of dividend, the further surplus, if any, is divided between the preference and ordinary shareholders.

"*Gilt-edged*" *Security.*—A term used to describe that class of security which by the guarantee of a stable government or municipality, or ranking high in the order of preference of an important railway or other company, is never likely to default in the payment of either capital or interest.

*Bonus.*—When a company from some exceptional cause has made a larger profit than usual in any one year, and rather than

declare an increased dividend, which it might not be able to pay in the next or subsequent years, it declares the usual rate of dividend, and distributes the extra profit amongst the shareholders; this extra profit is called a "Bonus."

*Dividend.*—The amount of the interest periodically distributed to the various classes of bond, stock or shareholders to which they are entitled.

When dealing in a stock near the date on which the dividend is due, and on which stock the *buyer* will receive the dividend accrued, the stock is spoken of as "cum dividend," but if the dividend has been already paid or will be paid to the *seller* the stock is spoken of as "ex dividend." In the same way bearer bonds or debentures may be quoted as "cum coupon" or "ex coupon."

*Note.*—In some cases of American bonds and bonds of other countries which are far distant from England, the interest is deducted about a month in advance of its due date, the stock being quoted ex coupon.

*Reserve Fund.*—This is *supposed* to be a sum set apart each year from the profits of the company before a distribution is made in dividends. I say deliberately "supposed to be," as in very many cases the *item* "Reserve Fund" in a balance-sheet is simply a matter of book-keeping, and represents a portion of the assets of the company in stone, lime or machinery. Only in cases where the sum set apart is invested in realisable securities outside of the company's business altogether should much consideration be given to it. Nor is a reserve fund in any measure a security for the debenture and preferred shareholders of a company, as at any time it may be made use of by the directors to pay a dividend to any class of shareholders, unless a special provision has been made to the contrary in the Company's Articles of Association.

*Stock, Share.*—These two words are very often used indiscriminately, and without due regard to their proper value. Stock

is usually issued in the form of £100, and can be split up into any amounts, and can be dealt in in almost any fraction. A share is issued for a fixed amount, and while it may be dealt in, up to almost any quantity, fractions of a share are almost unknown, except in the case of new issues, where a holder may be entitled to so many shares and a fraction, but must sell his fraction, or purchase another fraction to make up a whole share before it can be registered.

*Par Premium, Discount.*—The "par" of a stock or share is the amount represented on the face of the document issued to the holder; if stock at £100, then £100 is the par value, if a share is issued at £5 or £1, then the "par" value is £5 or £1.

A share is said to be at a "premium" when it commands a value over the issue price, thus, a share issued at the price of £1 and selling at £5 is described as being at a premium of £4.

*Note.*—To purchase 100 £1 shares at £5 a share is

to pay £500 for that which cost the original investor only £100.

When a share is under the "par" or issue price it is then at a "discount," so a share issued at £1 and selling at 15s. is at 5s. discount.

*Note.*—Sometimes in order to induce investors to become interested Bonds and Debentures are issued at a discount; for instance, a 7 per cent. Debenture is offered at 90. Securities issued at premiums as a rule should be avoided. On the other hand, it is often wise to buy those offered at a discount as eventually they are redeemable at their face value and a profit is made.

*Face Value.*—This might be described as being the par value of the stock or share in question; that is, the amount for which it was originally issued, and which is inscribed on the face of the Bond or Certificate.

*Transfer.*—The assignment from the seller to the buyer, and is usually in a printed form. In it the buyer is designated the "transferee," and the amount paid the "consideration money." When the transfer is executed by being signed by the seller,

it has to be accepted, *i.e.* signed by the transferee and then sent in to the secretary of the company, who charges a fee for registration, and issues a certificate to the said transferee or buyer.

Certain banks, insurance and other public companies have forms of transfer of their own, which, when required, are supplied by the secretary of the company.

It not infrequently happens that the amount of the consideration money in the transfer differs from the actual amount paid by the buyer, which is explained by the fact that the lowest price during the last three accounts can be inserted. On each transfer is printed the following:—

*Note.*—The consideration money set forth in a transfer may differ from that which the first seller will receive, owing to subsales by the original buyer; the Stamp Act requires that in such cases the consideration money paid by the subpurchaser shall be the one inserted in the deed as regulating the *ad valorem* duty. The following is the clause in question:—

> "Where a person having contracted for the purchase of any property, but not having obtained

> a conveyance thereof, contracts to sell the same to any other person, and the property is in consequence conveyed immediately to the subpurchaser, the conveyance is to be charged with *ad valorem* duty in respect of the consideration money from the subpurchaser." (54 and 55 Vict. cap 39 (1891), section 58, subsection 4.)

Transfer stamps and fees are always paid by the buyer.

*Share Certificate.*—A document issued to the purchaser of the stock or shares after the transfer is registered, which certifies that the holder is the registered proprietor of so much stock or so many shares, giving their numbers on the company's register, and no stock or shares can be sold and delivered without the production of this certificate.

It will be noticed that in the beginning of the above glossary has been given a list of the class of securities, from Consols downwards, which might be considered as gilt edged, if they were found to be exactly what they were described. But in very many cases such descriptions as debenture bonds,

guaranteed stock, &c. are given with but very little reason, and the stocks when examined carefully are found to have no qualification to justify their title. It is here again that expert experience comes in, by aid of which such stocks may be examined and sifted, till only the best remain to be placed before the investor.

A proper appreciation of the classification of securities is an essential point in the investment of capital. Briefly, investment securities rank as follows :—

1. **Government Loans, Bonds and Debentures.**
2. **Preference Shares.**
3. **Ordinary Shares.**

It may be well here to offer a few words of explanation on the advantage of holding Securities of the first grade, *i.e.* Bonds and Debentures. In the first place, it is comparatively easy in these days to obtain a yield of from seven to eight per cent. from stocks of this description, and there should therefore be little inducement to invest in

ordinary stocks and shares on which the return is no higher and often less. But it is in the all important matter of safeguarding capital that Bonds, Debentures and kindred stocks must always appeal to the prudent investor. Let us take a company with a large prosperous and flourishing business, possessing extensive premises and valuable real property. The debentures would be a first charge secured on the entire property and assets of the undertaking. That means that the debenture holders must be satisfied, first, in regard to interest before any division of profits can take place, and secondly, by repayment of capital in the case of sale or liquidation. The Preference shares would rank next for anything left over, and finally the Ordinary shareholders are entitled to any balance (if any). Then again, assuming the company, owing to special circumstance, finds it difficult to go on without fresh capital, the Ordinary shareholders would first be asked to sub-

scribe, and, failing this, an effort would be made to effect a scheme in which the Preference shareholders would participate, but if the necessary funds were still not forthcoming, and the company did not meet its obligations to the Debenture holders by prompt and regular payment of interest, the Debenture holders could at once take possession of the entire property of the undertaking, which is almost invariably more than sufficient to cover the capital involved.

## CHAPTER IV.

### THE CARE OF SECURITIES AND COLLECTION OF INCOME.

The safe custody of securities is a question of considerable importance to investors, and especially is this the case in regard to bonds, debentures and all descriptions of scrip to bearer.

Many investors rely on their own safes, others entrust their securities to solicitors, but it is only by making use of the facilities for safe custody furnished by the leading banks that the nearest approach to absolute safety can be attained.

Those who keep securities in their private safes have the contingencies of fire and burglary to face, and although it is not intended here to cast a slur on the legal profession, unfortunately there are black sheep in every calling, and the public have become all too familiar with

scandals in which solicitors have been implicated in connection with trusts and other estates.

It is therefore always well to avoid the risk involved by entrusting valuable securities to any other agency than that of a bank. Even here, however, there must be discrimination. There are banks and banks, but it is not very difficult to distinguish between the leading joint stock banks, institutions associated with the Bankers' Clearing House, and companies of doubtful standing, which appropriate the title of "Bank."

There are two ways in which securities may be deposited with Bankers for safe custody, and my own experience during the years in which I occupied the position of manager in one of the leading Scottish banks goes to show that a large number invariably adopt the wrong method. There would apparently appear to be a desire to conceal the securities deposited, that is,

they are often placed in a locked tin box or sealed package. The disadvantage of this procedure is that the bank is only responsible for the safe keeping of the box or parcel, and as the contents are not disclosed, they cannot undertake the safe custody of the securities as securities, although, of course, the greatest care is taken of all parcels and boxes lodged at the bank.

The proper method to adopt is to enumerate the securities deposited, which are then examined and at once entered in a book kept for that specific purpose, and then deposited in the strong room of the bank. This entry can be referred to at a moment's notice, and the securities can, at any time, be returned to the owner when required without delay.

In forwarding securities for this purpose by post, the accompanying letter should be worded somewhat as follows:—

"I am enclosing the following securities,

or the securities enumerated on the enclosed list, as the case may be, for safe keeping, and I shall be obliged by your kindly acknowledging safe receipt."

There is, however, another advantage in depositing securities in this manner, and that is that all coupons are cut off and collected on the due dates and the amounts placed to the credit of the customer's current account, while the fact that a bond has been drawn for redemption, which might easily escape the notice of a private investor, will be duly noted by the bank officials. The payment of dividends is often delayed, and sometimes the amount is entirely lost through want of care or inexperience on the part of the holder. Altogether the lodging of securities with a recognised bank gives a sense of safety in regard to safe custody which cannot be attained in any other way.

## CHAPTER V.

### THE CONSIDERATION OF INCOME IN REGARD TO INVESTMENT.

In drawing up a scheme for the investment of capital, due regard should be paid to the circumstances of each individual investor. But as this would be almost an impossibility, each might be placed in one of the following classifications :

I. The capitalist who has inherited means, or who has acquired a fortune and retired, and is entirely dependent on the income derived from his investments.

II. The professional or business man who lives on the income derived from his profession or business, and has a surplus over and above to invest.

III. The small capitalist, to whom it is necessary to obtain the largest income pos-

sible from his investments, compatible with safety.

IV. The capitalist who, knowing that later on he will inherit a larger fortune, in the meantime desires to obtain as large a return as possible from his present capital.

To those in the happy position of being in the first class, it is not difficult to give advice, for it is perfectly possible, with a little care and judgment, to provide them with a selection of securities, chosen on the basis described in a former chapter, which will yield them 7 to 8 per cent., and with such a yield on their capital they should surely be content.

And here it might be pointed out that while absolutely averse to speculation in the common acceptance of the word, it is found that in this class of investor there often is the speculative spirit. In investing he will tell you he wants to increase his capital, and does not wish to confine himself to a class

of security which has no chance of improving in price beyond a probable figure.

Now it is quite possible, if one studies carefully the movements of all classes of securities, to arrive at what might be called their normal price, below which they may be considered cheap, above which they are dear.

In providing for the wants of the class of investors described, a stock should be chosen which, from some abnormal cause, is unduly depressed, or which, owing to possible contingent rights, has a value greater than that represented in the current price. But let it be distinctly understood that no such stock should be purchased until, by applying to it the tests described, *these convincingly showed that it was inherently safe and intrinsically sound.* When, under altered conditions, the price recovers to or rises above its normal value the stock can then be sold and the proceeds reinvested in another security of a like nature. By this means the investor can change his securities

from time to time, with profit to himself, but I again emphasise the fact that the transactions must be carried out with the greatest care and judgment, and in no case should more than a small portion of the capital be so treated.

An impression prevails amongst investors that the smaller the rate of interest the less the risk of loss. This is quite a fallacy, for there are many good and sound Bonds and Debentures which may now be purchased to yield from 7 to 8 per cent., whereas prior to the outbreak of the European War such securities would not have been issued to yield more than 4½ to 5 per cent.

A remarkable example of appreciation in capital occurred some years ago and was brought to the notice of investors in the *Fortnightly Financial Review*, published by Mortimer, Harley & Co., Ltd. Each of the securities enumerated was of the highest order, and the illustration will still serve to show that capital appreciation can be

achieved equally well by investment in high-grade stocks as in speculative shares. Strict attention is, however, necessary to the opportunities which present themselves, and it may be remarked in passing that the best way of achieving such results is for the investor to place his affairs in the hands of investment experts who have their clients' interests at heart, and the organisation and facilities necessary for "watching investments."

In 1896 Grand Trunk Stocks were abnormally depreciated and the first preference stock was at £28. £1000 invested in this stock at 28 could have been sold in 1897 at £56, thus doubling the capital and making it £2000 for re-investment.

In 1897, owing to the war between Greece and Turkey, Greek Government 5 per cent. stock was to be had at £20. An investment of £2000 at that price could have been realised at 40 in 1898, again doubling the capital.

In 1898 Spanish Government stock fell to 30 consequent on the Spanish American War, but in the same year recovered to 60. Thus an investment of £4000 would have been again doubled, making £8000.

In 1898 Atchison Railway 5 per cent. preference stock was purchasable at 24, and in 1899 went up as far as 69, so once again the original investment could have been more than doubled.

The four transactions in high-grade securities would have shown a profit of at least £15,000 in four years.

I was asked in the year 1904 to recommend a good 4 per cent. Bond. The Union Pacific Railway Company (U.S.A.) First Lien Convertible 4 per cent. Gold Bonds were selected, in the first place because, selling at par, they were considered to be rather under their normal price, and also because the Bond-holder had the valuable contingent right of exchanging the debentures at any

time for an equal amount of the Company's ordinary stock at par. The American railway market being in a depressed condition, not having recovered from the trouble engendered by the Northern Pacific Railway deal in 1901, the Ordinary Stock of the Company was at that time selling about 80, and therefore might also be considered as below its normal value.

Within two years, however, the price of the Ordinary Stock rose to over 200, and the client exercised the option and sold the stock at a profit of nearly 100 per cent. It may be mentioned that the investor was a lady, and on being written to and advised to sell, replied, "I cannot understand why you wish me to sell. You first of all, I allow, put me into a fine security, but does not the fact of it having risen so high point out how very good it is, and it being so very good, how is it possible that you now want me to sell?" It may be added that it was with the greatest diffi-

culty she was convinced, and persuaded to take the advice given.

*Note.*—There are many bonds in existence, both at home and abroad, having convertible rights attached to them.

It is again a matter of common experience to find that in a great many instances the general investor chooses one or both of two dangerous classes of securities, namely, those which have a liability attached to them and those whose shares stand at a high premium.

The failure in 1878 of the City of Glasgow Bank, the shares of which were subject to no limitation in their liability, brought before the public mind the extreme danger of such a state of affairs,—rich shareholders being entirely ruined, and poorer people possessing only small holdings losing everything they had,—and since that date all public companies have become limited, with practically few exceptions. The shares of many companies, however, are only partly paid, the remaining part or uncalled capital forming a security on which the company

can borrow, and at any time the shareholders may be required to pay up the uncalled remainder of the capital.

Some years ago one of the leading Shipping Companies made a call upon its shareholders, who, if not having funds in hand to meet the calls, had either to realise their other investments or part with a portion of their holding in this company; and as there were many shareholders in the latter position, the price fell very considerably, owing to competition in selling. Beyond therefore the inconvenience of having to raise money at a moment's notice, they had the mortification of seeing a considerable shrinkage in their capital. In some cases it has been found that the liabilities on shares contained in lists exceed the amount of the remaining investments, which is, in short, a suicidal absurdity.

A still more striking example of the danger and risk of liability for uncalled capital was afforded by the collapse of the

ill-fated Law Guarantee Trust Society, Limited. This company was established in 1888 with a capital of £2,000,000 in shares of £10, of which only £1 was paid up, leaving a liability of £9 per share. Progressive dividends were paid, which in 1891 reached the maximum of 10 per cent., a rate that was maintained during the following five years. There was every evidence of high prosperity, and the company was held in high repute. The reserve fund amounted to £195,000, in addition to which £25,000 was also reserved for claims in suspense, while at a late period of its existence a substantial amount was carried forward. Where was there here any indication of danger which the average investor could detect? and yet, each shareholder of the Law Guarantee Trust Society was called upon with little or no warning to find £9 for each share held. Here is a case which brought ruin to numbers of unfortunate investors, as there was no

likelihood of their receiving a penny piece of their money back again. It is questionable whether many of the victims knew at the time they purchased the shares—in many cases at high premiums—that they were incurring so serious a liability. Many people having invested £1000 found that not only had this capital been lost, but in addition they had to provide an extra £9000.

In advising investors it should be a rule, no matter how satisfactory the position of the company may appear to be, *never to recommend shares having any liability whatsoever.*

In regard to the other class of shares, namely, those standing at a high premium, it should be borne in mind that such premium is the result of two causes, the first, the great success of the company, the second, its great expectations, which latter cause we need not consider. But if a company's shares stand at a high premium owing to its successful operations, it must not be for-

gotten that success leads to imitation and competition, which both mean lower prices and less profits.

The £1 shares of the Aërated Bread Company in the year 1900 rose to £15, and touched the same figure in 1901, 1902 and 1903. There arose strong competition from other companies which were started on the same lines, with the result that the price of the original company's shares has now declined to about $1\frac{13}{8}$, or a fall of £13 : 12 : 6 from the highest price reached. At this time the shares of J. Lyons and Company, Limited, a new competitor, stood about par, namely £1, and now have risen to over £4. In all companies of this class it should be taken into consideration whether or not it is a "one man concern," dependent on the brains of a clever man whose retirement from any cause would be disastrous.

Another class of shares which should be avoided are those which stand at a high premium, and issues of new shares *at par*

ranking equally for dividends are made by the Directors from time to time, thus giving a bonus to the holders. This unsound policy, persistently pursued, had much to do with the ultimate severe fall in Aërated Bread Company's shares already referred to. It was extraordinary that a company of so high a standing as the Canadian Pacific Railway, whose Ordinary stock was in 1912 about 240, should have repeatedly issued new stock at near the par price, thus giving the shareholder a bonus of over 100 per cent. on the amount allotted to him. Surely a better policy would have been to issue 4 per cent. Preference stock, which would have been a saving of 6 per cent., as at that time the Ordinary stock received 10 per cent.

It will no doubt be seen from what has been written, and from the examples given, that different classes of securities can be selected to suit the different classes of investors mentioned at the beginning of this chapter.

Many people are very careless in classifying their investments, and often even lax in looking after the collection of their dividends. For the purpose of assisting investors in this respect, an Account-book has been designed which, although so simply arranged that any one can understand and use it, yet combines all that is necessary to enable the investor to carefully watch his securities and keep a proper account of his dividends.

## CHAPTER VI.

### TRUST INVESTMENTS.

In a previous chapter it has been pointed out that the purchase of an Annuity, the method of investing capital which brings in a large income, is only suitable when the investor has no family ties or obligations regarding his money, and desires to have the greatest value out of it for himself during his own lifetime. It may be regarded as a selfish way of obtaining an income, for at death the entire capital becomes the property of the insurance company. From first-class insurance offices in the United Kingdom the rate would be about 7 per cent. at the age of forty.

If the capitalist has a wife and children or others dependent on him it is of paramount importance that the fortune he leaves

behind him should be placed in a Trust, with powers to invest only on a thoroughly satisfactory system. It would be well for all investors at the outset to have their lists of investments arranged on a thoroughly sound basis, which would enable them to insert in their wills a Trustee clause to the effect that the capital may remain as then invested, and can be exchanged from time to time when deemed necessary, the new investments to be selected in a similar manner and on the lines of the old ones.

When a man dies, leaving on trust the money which he already possesses, or which may accrue from life assurance, *without making any special provisions in his will for its investment*, the only course open to the Trustees is to place the entire funds in securities coming within the limits of the Trustee Act. In order to do so they must realise any securities which he may have held, no matter how valuable they may be, if they do not come within the limit of the

said Act, and it is obvious that this must often result in great hardship to the beneficiaries. In the case of a man who leaves a fortune of £10,000, from which he had been drawing an income of £700, which is not an extravagant rate of interest, it is not unusual to find that when this sum comes to be invested under Trustee limitations, the average rate of interest yields but 5 per cent., giving an income of a little over £500 a year. There is no need to embellish the picture of the great hardship incurred by his wife and children.

Again, the position of the Trustees under such a will is a most thankless one. As a rule they receive no remuneration for their services, and should they, for the sake of obtaining a larger income for the beneficiaries, run risks and make an unfortunate investment outside their powers, they are responsible for any loss. It is not, therefore, to be wondered at that in many cases, to avoid all responsibility, they invest the

entire capital in Consols or a similar gilt-edged security. There are many trusts in existence to-day treated in this manner, and many which were created a few years ago, when Consols sold as high as 114. What must now be the feelings of the unhappy beneficiaries and their Trustees, with Consols at 46, showing a loss of £68 on each £100 of stock.

In 1888 the late Lord Goschen, then Mr. Goschen, Chancellor of the Exchequer, carried through Parliament his scheme for the conversion of the interests on Consols, first from 3 per cent. to $2\frac{3}{4}$ per cent., and then to $2\frac{1}{2}$ per cent. How little did the framer of the Act think that within a few years the stock which bears his name, the premier security of the world, would sell at 54 per cent. discount. The extension of the Trustee Act, giving a wider field for the investment of trust funds, the reduction in the interest, the losses caused by wars and consequent heavy borrowings by the

Government, although not the primary cause, have all aided in helping to depress the price. Some critics go deeper, and argue in this fashion—for every £100 of Consols the holder receives per annum £2 : 10s. in gold, but owing to the greatly increased price of commodities the purchasing power of gold has decreased, therefore the price of gold-paying securities dwindle. Whatever the reason of the fall may be, buyers of Consols are nowadays few and far between, and almost the only support comes from the Government's buying for the Sinking Fund. It is small consolation to the investor who purchased round about par, or patriotically supported his country, that the country now benefits by being able to buy back from him at such a low figure. And, unfortunately, there are little hopes of an upward movement taking place, as the fixed rate of 2½ per cent. alone is a justification for the present price.

In fixing what securities should come under the Trustee Act at the time when it was passed, great care was taken in making the

selection to include only those which were of the highest class, and on which the possibility of a *default in income* was guarded against, as far as this was humanly possible. The framers of the Act, no doubt being patriotic, took care to limit the investing powers to British and Colonial Stocks. This policy was a good one for the country, but not for the investor. As only a very limited number of securities could come under these two divisions, the demand for a long time exceeded the supply, with the result that prices were forced above their normal value to an extent which had never been anticipated. The high prices reached were never justified on merits, the fixed Act binding to a certain field and the limited supply being entirely responsible.

Apart from Government and Municipal securities, the majority of stocks available comprise the Debenture, Guaranteed and Preference stocks of the leading British Railways.

The reduction of the Consols dividend having created a new and lower level, as

it were, for adjusting the normal yield of investments, prices rose rapidly, till in 1896, when money was plentiful and the rate of discount low, they reached their zenith. Investors bought blindly, without considering the price or the possibility of there ever being a reaction.

Many securities of this class now show a shrinkage in value from the high prices ruling in 1896 of from 30 to 50 per cent. all round. As an interesting example, the Liverpool Corporation $3\frac{1}{2}$ per cent. Irredeemable Stock, which in 1896 sold at $143\frac{1}{2}$ to-day is quoted at 61.

The unfortunate beneficiaries whose funds were invested about that period, at or near the highest prices then current, are in the doubly unhappy position of drawing what seems to be the lowest possible rate of interest on their money, and of seeing their capital sadly depreciated. It must be galling also for them to consider what a difference it would have made if the Trustee Clause for investment had permitted judiciously placing the capital in first-

class Foreign and Municipal Loans and Debentures on the basis of an international distribution, with a limited amount involved in each section and each security, thus minimising losses and giving a more satisfactory income.

Within the last few years the Trustee Act has been widened, so as to include a number of Colonial securities. It is to be noticed in many of these that limitations have been made as to buying at a premium, but no Government has yet ventured to extend the power of investment outside the area of Great Britain and the Colonies.

This surely seems unreasonable when one considers the vast political, financial and physical power of such a country as the United States of America, and of many other countries in which there are securities quite equal in their financial standing to those which come under the Act as at present constituted.

Having made a special study of the question of Trustee investments, in order

to find whether it were not possible to devise a scheme or form of directions, to be inserted in Wills or Bequests, giving the Trustees a wider field for investment in international securities, at the same time limiting their power in the selection of such securities so that the capital should remain intact, I adopted the method of drawing up such a form of directions, and asking clients to submit it to their Bankers and Lawyers. After constantly receiving their ideas and suggestions on various points, I have adopted the following form :—

FORM OF DIRECTIONS.

I declare that any monies which fall to be invested under this, my Will, may be invested in—

1. The Funds of any Government which has not made default in meeting its obligations for *ten years* prior to the date of the investment.
2. The Loans of any Corporation or Municipality in any part of the world which are gazetted as possessing a

population of not less than 100,000 inhabitants, and which Corporation or Municipality has never made default.

3. The Debentures and Preference Stocks of any commercial or financial enterprise working under an Act of Parliament or Legislature, British or Foreign, or registered under the joint stock laws of any country, which country has not made default in meeting its obligations for ten years prior to the date of investment, provided always that such enterprise has been established for at least *three years* prior to the date of investment, and has (1) a paid-up capital of not less than £100,000; (2) has for the last *three years* prior to the date of investment made, according to its balance-sheet in each year, a profit equal to twice the amount of the Debenture interest; (3) in the case of Preference shares, after paying the dividend on such

Preference shares and providing for all prior obligations, there must for *three years* prior to the date of investment have been a surplus also equal to double the amount required to pay interest on such Preference shares.

4. No securities are to be bought at a *premium* of over 5 per cent. of the face value, and if such securities are redeemable at par, no premium must be paid which in amount exceeds a year's interest.
5. The Funds invested shall, so far as possible, be divided into eight international divisions.
6. And I declare that the above powers are in addition to those granted to Trustees by Act of Parliament or otherwise.

A few words of further explanation may be useful. In the first section it will be noticed that a restriction is made in the choice of Government securities to those which have made no default for ten years,

this is meant to preclude such States as Venezuela or some of the mushroom States of South America. As a further safeguard companies situated in these countries are also precluded.

The second section requires that the Municipalities, whose Loans may be chosen, should have a considerable population, the minimum being fixed at 100,000, to prevent investments being made in small towns or villages.

The third section is a little more complicated, but it tends to prove the stability of the Debenture or Preference share chosen, when an ample surplus is shown after paying the dividends. The fourth section deals with the question of *premium*, preventing securities from being purchased at too high a price. It is stated that no premium should be paid greater than the amount of one year's interest, and here it might be suggested that it would be prudent finance to set aside a small sum out of the income each year until the amount of the premium paid was made up, so that

on redemption of the stock at par the capital remains intact.

The last section provides for the capital being spread over securities of an international character, and should, if wisely followed out in conjunction with the former directions, enable the Trustees to complete a list of investments yielding a satisfactory rate of income, combined with Safety of Capital.

It has been mentioned that lists of investments, aggregating nearly £40,000,000 sterling in value, have come under my observation, each list having been thoroughly examined and criticised. The majority of these lists, having the bulk of the capital invested in British securities, showed severe losses, while only those lists—a very few in number—which had, to an extent, been treated on a system of international distribution showed an improvement in capital value.

Numbers of these lists have been effectively rearranged on an up-to-date distribution, with the result of securing an

increased income, in what may be termed first grade securities, such as Government Loans, Municipal Loans and Debentures.

On the following pages an example of an effective scheme of re-arrangement is illustrated. This scheme was submitted to a client in 1915, and a glance at the present-day values shows the great difference in capital depreciation caused by spreading the investments internationally.

This scheme shows in no uncertain way the soundness of the principle, especially when it is considered that the last valuation was made immediately after the effects of a continued financial and industrial depression throughout practically the whole world had been fully demonstrated.

In acting upon the advice given and recommendations shown, the client not only increased his income by £254 : 1 : 6, but saved himself a loss of over £12,000 through capital depreciation, and it should be noticed that by far the most of this depreciation has taken place in Trustee Securities.

# A SCHEME OF

## RECOM

| International Division. | Price June 1921. | Value, June 1921 | Amount of Stock. | STOCKS TO BE BOUGHT. | Price, June 1915 | *Cost* in £ sterling | Income per Annum. | Due dates of Income. |
|---|---|---|---|---|---|---|---|---|
| | £ | £ | £ | | £ | £ | £ s d. | |
| BRITISH . | $\frac{7}{8}$ | 2,625 | 3,000 | Brit Alum Ord Shrs | 1/1/6 | 3,225 | 150 0 0 | Apl and Oct |
| | 69 | 3,450 | 5,000 | Borax Consolidated 4½ per cent. 2nd Debs | 91 | 4,550 | 225 0 0 | May and Nov |
| | 87 | 1,740 | 2,000 | Newcastle and District Electric Light 6 per cent. 2nd Mtg. Debs | 98 | 1,960 | 120 0 0 | Mar and Sept. |
| | 90 | 4,500 | 5,000 | Lanarkshire Tramways 4 er cent. Debs. | 85 | 4,250 | 200 0 0 | Jan and July |
| COLONIES. | 72 | 1,440 | 2,000 | New Westminster (City of) 5 per cent Stlg Debs | 89 xd | 1,780 | 100 0 0 | Jan and July |
| | 79 | 3,950 | 5,000 | Canadian Northern Western Alberta 4½ per cent. Gtd 1st Mtg Debs. | 89 | 4,450 | 225 0 0 | June and Dec. |
| EUROPE | 74 | 3,700 | 5,000 | City of Copenhagen 4 per cent Bonds. | 85 | 4,250 | 200 0 0 | May and Nov. |
| ASIA . | 100 | 1,980 | 1,980 | Chinese Govt. 7 per cent Pekin Hankow Rly. Redemption Loan and Share of Profits. | 102 | 2,020 | 168 0 0 | May and Nov |
| | 89½ | 4,568 | 5,104 3/4 | Osaka Harbour 6 per cent Construction Loan | 96 | 4,900 | 306 0 0 | June and Dec. |
| AMERICA NORTH | £100 $386 | 6,476 | $25 000 | Lackawanna Steel Co 5 per cent. 1st Mtg. Bds. | 84 | 4,815 | 256 17 0 | Mar. and Sept. |
| | 85 | 850 | £1,000 | St. Louis Springfield and Peoria R R 1st and Refdg Mtge 5 per cent. Gld Bonds. | 98½ | 985 | 50 0 0 | June and Dec. |
| AMERICA SOUTH | 100 | 2,000 | 2,000 | Argentine Govt Gtd. Treasury Bds. 1920 | 96 | 1,920 | 120 0 0 | May and Nov. |
| | | £37,279 | | | | £38,555 | £2115 17 0 | |

Depreciation = £1,276. Increase in Income =

# RE-INVESTMENT.

## MENDED 1915.

| Price, June 1921 | Value, June 1921 | Amount of Stock | Stocks to be Sold | Price June 1915 | *Value* in £ sterling | Income per Annum. |
|---|---|---|---|---|---|---|
| £ | £ | £ | | £ | £ | £ s. d. |
| 44 | 1,604 | 3,646 | Great Northern Railway, Prefd Conv Ordy. | 77 | 2,807 | 145 16 6 |
| 26¾ | 650 | 2,430 | Ditto Defd | 40¾ | 990 | 66 16 6 |
| 42 | 2,940 | 7,000 | Ditto 3 per cent Pref 1898 | 68 | 4,760 | 210 0 0 |
| 69 | 1,380 | 2,000 | L. B & S C Rly 5 per cent Cons Prefce | 114 | 2,280 | 100 0 0 |
| 60 | 24 | 40 | L & N W Rly 4 per cent. Cons. Prefce | 94⅜ | 37 | 1 12 0 |
| 59 | 1,216 | 2,062 | Ditto 4 per cent Prefce. 1902 | 94 | 1,938 | 82 9 6 |
| 60 | 2,520 | 4,200 | L. & S W. Rly Cons Ordy. | 101⅝ | 4,268 | 236 5 0 |
| 33 | 1,571 | 4,762 | Midland Railway Prefd. Conv Ordy. | 53½ | 2,547 | 119 1 0 |
| 37 | 610 | 1,650 | Ditto Cons. 2½ per cent. Perp Prefce | 57¾ | 953 | 41 5 0 |
| 73 | 2,920 | 4,000 | N E. Rly Consols. | 112¼ | 4,490 | 260 0 0 |
| 55 | 550 | 1,000 | S E. Rly Prefd. Ordy. 6 per cent. | 92 | 920 | 60 0 0 |
| 43 | 129 | 300 | Ditto 3½ per cent Prefce. | 76½ | 229 | 10 10 0 |
| 49 | 1,960 | 4,000 | Ditto 4 per cent. Prefce. 1900 | 88 | 3,520 | 160 0 0 |
| 58 | 696 | 1,200 | Burton-on-Trent 3 per cent | 80½ | 966 | 36 0 0 |
| 55 | 220 | 400 | Derby Corporation 3 per cent | 76½ | 306 | 12 0 0 |
| 54 | 1,080 | 2,000 | Metropolitan Water 3 per cent. "B" | 74½ | 1,490 | 60 0 0 |
| 73 | 1,825 | 2,500 | Union of South Africa 4 per cent. Cons. | 94 | 2,350 | 100 0 0 |
| 77 | 3,080 | 4,000 | City of Winnipeg 4 per cent Cons. 1940. | 87 | 3,480 | 160 0 0 |
| | £24,975 | | | | £38,326 | £1881 15 6 |

£954, 1s. 6d. per annum. Depreciation = £13,351.

## CHAPTER VII.

### THE STUDY OF REPORTS, BALANCE-SHEETS AND PROSPECTUSES.

It is a matter of common experience to find that almost every investor has his favourite Security, or favourite class of Securities, and it is not always easy to convince him of the fallacy of his views in this respect. It has already been suggested in a former chapter that the man in trade generally selects for investment the securities of allied trades, but he is not alone in this. People living in certain districts which are given over to a certain branch of industry are often found to have all their investments in that particular industry, which is also a most unsatisfactory position. They are con-tent to hold on to their investments, even although the price may be steadily falling,

and seldom take the trouble of studying carefully the Balance-sheets and Reports of the different companies in order to find out the cause of the decline, or if there may be a reasonable prospect of improvement. It may be that they have not had sufficient business training to enable them to understand Reports and Balance-sheets, which are always a puzzle even to the experienced, and in that case it is most essential that the services of a financial adviser should be sought.

Directors of companies are in no way liable for the fluctuations in the price of their shares, and if they adhere strictly to the rules laid down for them under the "Companies Acts," can in no possible manner be held responsible for any loss which the shareholders may incur. At the same time it is not difficult so to manipulate a Balance-sheet as to conceal some essential facts, and this may sometimes be done from a desire to benefit the

company, if the publication of these facts might, by giving information to a rival enterprise, be injurious to the company. The directors are, to a certain extent, held in check by the Auditor who certifies the accounts, and who, if the Balance-sheet be not in his opinion absolutely correct, may insist on some change or changes being made on its previous form, or some further explanations being given, before he will certify and sign it. Now, in comparing one year's Balance-sheet with another, these changes in form or explanations should be noted, as they are what might be termed the warning signals of probable danger ahead. When they appear they should be carefully examined, and close inquiry made, nor should the matter be allowed to rest until the shareholder is thoroughly satisfied that all is in order and correct. For example, in studying the Balance-sheet of a company I found one entry on the credit side was made in the form of "By customers' balances";

the following year the entry appeared as "*By customers' balances* (*after deducting reserves*)." This aroused my suspicions, and on making inquiries I found that the Directors of the company had departed from their usual strict business rules, and had incurred very serious losses through dealing with unsatisfactory customers, with whom they still had large commitments open. In the Report no reference was made to these losses, the Directors simply stating that the gross receipts and profits had fallen off owing to bad trade. The noting of the danger signal in this report was the means of bringing to light the true position of the company, and it proved to be the psychological moment for parting with the shares.

But how many people, even business men, ever study carefully the Balance-sheets of the companies in which they are interested? Nay, how many ever give heed to the hints which occasionally are given in the Reports

or at the Annual Meetings, pointing to the high price at which the shares may be standing, and suggesting, in a more or less covert manner, that people buying at these high prices do so at their own risk, as owing perhaps to competition or from some other cause, profits in the future may not be so great as in the past? We constantly see in the notices of Annual Meetings that "the Chairman made a rather pessimistic speech," but the investor passes the matter by, drops the Report into the waste-paper basket, and trusts to the chapter of accidents for things to come right in the future.

It cannot too emphatically be repeated that Reports and Balance-sheets should be carefully preserved and systematically studied and compared.

To explain more fully, the following example of a Balance-sheet on the next page is given.

## EXAMPLE OF BALANCE-SHEET

*Dr.*

| Particulars | £ | s. | d. | £ | s. | d. |
|---|---|---|---|---|---|---|
| To capital— | | | | | | |
| Authorised and issued— | | | | | | |
| 100,000 five per cent. cumulative preference shares of £5 each, - - - - | | | | £500,000 | 0 | 0 |
| 100,000 ordinary shares of £5 each, - - - - - | | | | 500,000 | 0 | 0 |
| | | | | £1,000,000 | 0 | 0 |
| ,, Bills payable, - - - - | | | | 52,984 | 13 | 1 |
| ,, Sundry creditors and accounts, &c. | | | | 231,881 | 1 | 5 |
| ,, Unclaimed dividends and outstanding coupons, - - - | | | | 2,881 | 19 | 6 |
| ,, Reserve fund, - - - - | | | | 150,000 | 0 | 0 |
| ,, Insurance fund, - - - - | | | | 75,034 | 16 | 1 |
| ,, Profit and loss, - | £220,416 | 18 | 8 | | | |
| Less—(1) Six months' interest at 5 per cent. per annum on the preference shares, paid on 1st Oct. 1904, - £12,500 | | | | | | |
| (2) Interim dividend on ordinary shares, paid on 15th February 1905, 50,000 | 62,500 | 0 | 0 | | | |
| | | | | 157,916 | 18 | 8 |
| | | | | £1,670,699 | 8 | 9 |

*Cr.*

| Particulars | £ | s. | d. |
|---|---|---|---|
| By land, manufactories, buildings, machinery, plant, &c - | £325,809 | 19 | 6 |
| ,, Sundry debtors and advances on cattle, &c. - - - - | 141,634 | 13 | 0 |
| ,, Establishment in South America for specie shipped, drafts issued, &c since balancing dates, - - - - - | 555,292 | 12 | 4 |
| ,, Valuation of stock in South America and in Europe, - | 482,823 | 19 | 8 |
| ,, Bills receivable, - - - | 9,034 | 1 | 6 |
| ,, Cash in hand, on deposit and at bankers, - - - - - | 156,104 | 2 | 9 |
| | £1,670,699 | 8 | 9 |

In criticising this Balance-sheet, it will be taken point by point, regarding it from the view of an Ordinary shareholder :—

1. There is £500,000 in preference shares *ranking before the ordinary capital.*
2. The assets consist of land, manufactories, machinery, plant, &c. There is nothing written off for depreciation of machinery and plant, and the whole of these items being lumped, the value of the principal asset, namely, the land, is not given.
3. The company holds lands, machinery, plant, buildings, &c., valued at,

| | | Assets. |
|---|---|---|
| 3. The company holds lands, machinery, plant, buildings, &c., valued at, - | £325,809 | |
| Deduct one-third to bring out a safer value, - | 108,603 | |
| | ——— | £217,206 |
| As sundry creditors and debtors appear on both sides of the balance-sheet, deduct one from the other, - | £90,247 | |
| Add bills payable, Less bills receivable, | 43,950 | |
| Deduct | ——— | 134,197 |
| | | £83,009 |
| Establishments in South America, - - - | £555,292 | |
| Carry forward, | £555,292 | £83,009 |

| | | |
|---|---|---|
| Brought forward, | £555,292 | £83,009 |
| Deduct one-third for safer valuation, - | 185,097 | |
| | | 370,195 |
| Valuation of stock, - | £482,823 | |
| Deduct one-half, this being dangerous item, | 241,411 | |
| | | 241,412 |
| Cash, - - - - | £156,102 | |
| Reserve Fund, - - | 150,000 | |
| Insurance Fund, - - | 75,034 | |
| | | 381,136 |
| Total, | | £1,075,752 |
| Deduct 5 per cent. Preference Stock, | | 500,000 |
| Balance of assets, - - | | £575,752 |

The last sum shows the breaking up value as far as the ordinary shareholder is concerned. This Balance-sheet is a copy of one issued by a large industrial company, and is exceptionally good in that there is no item "goodwill" shown in the assets.

The £5 shares of the company, which pay a dividend of 20 per cent., and for some years have paid a bonus of 5 per cent. in addition, *are quoted about £22 per*

*share.* This makes their capitalised value £2,200,000, which is out of proportion to the break up value of their assets, which have been conservatively worked out as £575,752. In the case of a company like this, however, the earning power must be taken into account in calculating the value of the share, and also whether that earning power is likely to continue, which forms another matter for examination and consideration.

Another point is that the Reserve and Insurance funds are invested in the company's business, and while they may be more profitably employed in this way, I hold strongly to the opinion that such funds should be invested only in separate and easily realisable securities.

An item generally found in the Balance-sheet of industrial or trading companies is that of "goodwill," which frequently covers a multitude of sins. The entry, as a rule, reads—"By purchase price of properties, plant, furni-

ture and goodwill"—it is always the largest item in a Balance-sheet—and it is not uncommon to find in a company, with say a capital of half a million, that the same amount is represented in the Balance-sheet under "goodwill." There should be a law to the effect that no auditor should certify any Balance-sheet which does not separate these items. The entry would then read as follows:—

| | | |
|---|---|---|
| By purchase price of properties, plant, furniture, &c. - | (say) | £300,000 |
| By goodwill, - - | (say) | 200,000 |

enabling everyone to judge of the estimated value of the latter asset. It is not unusual when the latter is enquired into to find that the real proportion is more likely to be properties, £100,000; goodwill, £400,000.

These few examples may help the reader to form for himself, after studying its Balance-sheets and Reports, an opinion as to the financial position of a company and the value of its securities.

Before investing in the stocks of a new

company, the Prospectus must be very carefully studied and examined. In the first place, if it is an old established private business which is being turned into a limited liability concern, the figures given in the Prospectus should be compared with the figures of similar companies already established. The reason of its being turned into a limited company should be sought for, as very often an old and perhaps declining business is turned into this form in order that its proprietors may find a market for their property, and having sucked the orange dry, hand the skin over to the public. The nature of the business that the new company proposes to embark on should be carefully considered from the point of view as to whether it is of a kind already well known and understood, such as shipping, textile or other manufacture, or, on the other hand, whether it is about to embark on an undertaking hitherto unknown, or but little known.

In the first instance, as has been said,

comparison may be made with other companies, but in the latter case the would-be applicant for shares is entirely in the hands of those who are responsible for bringing such a company into existence. In all cases it is necessary to be certain that the Directors are men of assured position, and capable from their business knowledge of wisely directing the affairs of the company, that the Bankers, Lawyers, Brokers, Accountants and Promoters are of good standing and repute. Special points to be noted are whether the total capital is reasonable, and that there is *abundance of working capital.*

In looking at the prospectus of a Home, Colonial, Foreign or Municipal Loan, it is not necessary to do more than consider the country or town in which it is issued, the size of the population and the already existing debt, and in the case of Municipalities the rateable value, also whether the rate of interest offered makes it a suitable investment.

## CHAPTER VIII.

### THE STOCK EXCHANGE.

SOME cynics on reading the above heading may inquire,—whatever possible connection can there be between the Stock Exchange and Safety of Capital? This class of cynic is well known in financial circles, and is generally to be found in the ranks of disappointed speculators—men who with no business knowledge have dabbled in stocks and shares on the advice of others no more competent to advise than themselves, and have lost their money. Or the same question may be asked by those who, during the past few years, have invested their capital entirely in British securities and have seen it gradually but consistently depreciate in value. But there may be some who will ask the question in all

seriousness, and to these the answer is, that in considering the whole question of investment, the Stock Exchange must be taken into account. In this chapter, therefore, I shall endeavour to give a brief account of the composition of the Stock Exchange, and of its methods of doing business, which may be of interest and service to my readers.

Whilst dealing primarily with the London Stock Exchange, which influences all others to a more or less extent, and which at one time absolutely did govern the movement in securities of all the other Exchanges, I would remind my readers how the idea of the gathering together of a body of men, whose business it is to act in the sale and barter of stocks and shares, has spread, until we find that there is now scarcely any city or town of importance in the world which does not boast of its Stock Exchange. Tokio, Johannesburg and Cairo, along with New York, Berlin and

Paris, all have their Stock Exchanges, as well as almost every provincial town of any size in this and other leading countries.

There are some five thousand members of the London Stock Exchange, and in the opinion of all fair-minded people who have had occasion to come in contact with them, a more honourable body of men does not exist. Of course, amongst so many, there must be "black sheep," but the rules are so strict, and the punishment for breaking them so swift and so severe, that they act as a strong deterrent to the few who might be tempted to go astray.

It is not a difficult matter to enter the "House," as it is called; an applicant for membership requires to find three members who will become security for him to the amount of £500 each, and the fees amount to about £600, in addition to which he must purchase a "nomination," at present worth very little, and also three shares of the Stock Exchange. In the case of an appli-

cant who for four years has been a "House clerk," only two sureties for £300 each are necessary, and the purchase of one share of the Stock Exchange. All applicants are balloted for by the Committee. Many people think that membership is too easily acquired, and that in consequence it has become unnecessarily large. In other Exchanges, New York for instance, membership can only be acquired by what is called purchasing a seat, the value of which ranges from £15,000 to £20,000.

The result of this easy method of admission is that there is far too large a membership and not enough business to go round, and also that men join the "House" without any of the necessary qualifications of a Stockbroker, but having some social connection, hope to get together a business. The investment business transacted in the "House" could be carried through by half the number of the present members, the rest having to depend almost entirely on

doing a speculative business to earn a livelihood. Doctors, parsons and lawyers all have to be thoroughly trained before practising their professions, but it is unfortunately too prevalent an idea that anybody can become a stockbroker, and if qualification for membership were made dependent on the serving in a stockbroker's office for a certain number of years, and also if the entrance fees were greatly increased, the membership would no doubt be decreased, but at the same time would be raised to a higher standard of efficiency and stability.

There are members in the "House" who devote themselves almost entirely to investment business, and who in knowledge, acumen and skill are not equalled by the members of any Stock Exchange in the world, but where a member has a large speculative business, he cannot give the necessary time and thought to the question of investments.

Having been elected, a member declares

whether he will act as Broker or Jobber, *i.e.* Dealer. The broker receives orders from his clients, and generally executes them through the dealer, who is restricted to dealing in the "House." The necessity on the London Stock Exchange for division into two classes is obvious, when the enormous membership and also the huge number of different securities dealt in are taken into consideration. Suppose a broker has orders to execute, either to buy or sell, War Loan, Consols, Bank stock, Railway stock, Brewery shares, Water shares, Mining shares or Industrial shares, each and all of them on one and the same day, he would never be able to find other brokers who wished to sell or buy the same stocks and shares, or the exact quantity of each in which he wanted to deal. To simplify matters, and to enable the broker to execute his orders, the dealer steps in, the method being as follows: —The various classes of securities are split up, as it were, into groups, and the

dealers in the different classes of securities form each a group, these groupings being called "markets"; thus there is the Consol Market, Home Railway, Ordinary Preference and Debenture Market, Oil Market, the American, Mining, Industrial Market, and so on. The broker approaches the various markets in turn, and enquires of a dealer the price of the stock in which he wants to deal. The dealer names a certain price, and the broker buys or sells the stock as the case may be. In making the price the dealer does so in the belief that he can undo his bargain at a profit, that is, should he make the price of a debenture stock 99-100, and the broker buys the stock at 100, the dealer knows where he can buy back at a profit the amount he has sold. This profit is called the dealer's turn. The broker's remuneration is the commission which he charges his client when the order is executed. Most investors would like to deal with the jobber direct, thus saving the

broker's commission, but this is not possible, there being a strict rule which prevents any jobber from dealing direct with the public.

It has been pointed out that a stockbroker should be carefully trained for his profession to enable him to give the best advice to his clients, and in no less a degree should a dealer carefully study the market in which he deals, so as to be able to know what quarter to approach when undoing his bargains ; if he deals in stocks in which there is not a free market, he should know what brokers are likely to have orders in such stocks, and as he will often be approached by brokers and asked the opinion of the market or of a special stock in the market in which he deals, he should be ready with an intelligent answer. That this is not always the case is exemplified by the story of a dealer, who, on being asked by a broker what he thought of a certain American company's stock, replied that he did not know

whether it was a railway or a canal company, but he would make the price 91 to 92 in ten thousand stock.

In active markets the dealer will usually make what is called a close price to the broker who wants to deal, but in stocks which are not freely dealt in, the price made is often very wide. This is only natural, as in some cases he may find that he can only undo his bargain at a loss, and therefore has to protect himself. It sometimes happens that the dealer sells a stock, and finds great difficulty in repurchasing it, and in that case the only recourse to the purchaser is to "*buy it in,*" that is, he gives notice to the officials of the Stock Exchange to buy it at the best price possible, the loss being borne by the dealer. It should also be borne in mind that if an investor sells a stock and fails to deliver it within ten days of the settlement it may be bought in against him, and he must bear the loss occasioned. This sometimes occurs through the loss or delay

in delivering a certificate. It is not always possible to deal in a stock, no matter what the price may be, as the dealer will not declare himself until he is satisfied he can undo his bargain, in which case the business becomes a matter of negotiation, and often takes time until either buyers or sellers come into the market. In such cases the broker often deals through some of the Banks, Insurance Companies or outside financial houses who may be interested in that particular stock. It is quite a mistake to imagine that because a stock is officially quoted it can be bought at the quoted price or sold at the selling price, as no member is bound to make a price unless the transaction appeals to him, and he feels he will be able to undo the bargain at a profit.

The "House" opens at half-past nine daily, but members seldom assemble before ten to eleven o'clock, unless in exceptional times. The official hours for transacting business are between 10·45 A.M and three P.M.; often,

however, business is transacted after this hour in the street. All bargains transacted between eleven A.M. and three o'clock may be marked in the official or unofficial lists of prices. The Stock Exchange is closed on Saturdays.

Stock Exchange transactions are generally between three parties, the principals being the client and the dealer, the broker acting as the agent or middleman. The investor, therefore, has really two commissions to face, the broker's commission for negotiating with the jobber and the jobber's turn. In the event of the dealer failing to implement his bargain, the broker may plead the Agency Act and refuse to accept any liability, but this has only happened on very rare and exceptional occasions; or, on the other hand, if the broker should fail, the client has the right of completing the bargain with the dealer.

The Rules of the Stock Exchange are most carefully framed for the protection both

of the public and of the members, but there are occasions on which both seem to have just cause for complaint.

As has already been pointed out, a Stockbroker need not have had a special training in his business, therefore the public must not necessarily expect from him the advice of a specialist, nor can they, as in the case of a Lawyer or Doctor, blame him if his advice proves to be wrong, as at best he can only express what might be called a pious opinion. Many decline to give an opinion at all, and on being asked for an investment they evade the point by simply giving a list of stocks and inviting the client to choose one.

The London Stock Exchange may be called the one Cosmopolitan Market of the world, where are met together men of all nationalities, and where stocks and shares of almost every description and of every country are dealt in. In New York the stocks dealt in are chiefly composed of

the various issues of Railway Companies, Gas, Water, Municipal loans and leading Industrials coming next, and much the same condition prevails, though not quite to such an extent, on the Continental Bourses, and all or nearly all of their securities can be freely dealt in in London.

Means of communication prior to the war had developed to such a state of perfection that a message can be sent by cable to New York and a reply received in less than three minutes, and the code system has been so ingeniously worked out that a single word will often contain half a dozen prices. Should a broker in London wish to communicate with his correspondent in Paris, he may speak to him through the telephone direct from the Stock Exchange to the Bourse. Business is conducted by telephone with the Manchester, Liverpool, Glasgow and Edinburgh Stock Exchanges, in addition to that which may be done by telegram over special wires put at the

service of the Exchanges by the Post Office.

The telephone has come into so great use, that in nearly all broker's offices may be seen a switchboard, by means of which they may converse with their chief clients, and with the leading Financial Houses.

So closely connected in this way is the London Stock Exchange with all parts of the world, that an important piece of news is often known to the members before it has reached the newspaper offices.

The London Stock Exchange is an extremely Conservative body, not only in regard to national, but also in regard to its own internal politics, and certain restrictions made long ago have never been removed, although other Exchanges have given a lead.

In New York a stockbroker is allowed to have his business card in the newspapers by way of advertisement if he thinks fit. In London advertising is strictly forbidden, not

only so, but a stockbroker must not approach with a view to business any person or any Company or Institution, in any part of the world, unless armed with an introduction, or unless he has already had some business correspondence with them. All the facilities for doing business which we have described as available to the Stock Exchange are equally open to the outside financial specialist, and in addition the latter may approach, with a view to business or information, any Institution he pleases, and so has a wider field of operation.

Notwithstanding, unless the public can thoroughly satisfy themselves as to the business standing and "bona fides" of any of the so-called "Outside Houses," they are better advised to deal with a recognized Firm on the Stock Exchange.

The pre-war innovations of Margins and Call Options have now been discontinued for seven years, but lately there has been some agitation—chiefly among brokers and

jobbers—for a renewal of these conveniences for speculators, hence it may not be out of place here to sound a note of warning against these practices. Appeals are generally made in a most attractive form through the media of circulars and newspaper advertisements to speculators to buy a certain share because it is going higher. This purchase, it is pointed out, can be made on margin, and it is, therefore, not necessary to pay for the stock, or the purchase of a "Call Option" is suggested, *i.e.*, the payment of a fixed amount for the right to buy a certain amount of stock at a fixed price. In either case no stock whatever is purchased, and the transaction is a pure gamble between two parties whose interests are entirely antagonistic, and it is, therefore, not surprising that those who enter into this form of speculative dealing generally have good cause to regret their temerity. Consistent speculation does not pay, and I cannot too strongly emphasise

this fact. What with commissions, jobbers' turns, etc., any profit made is quickly eaten up, and where losses are incurred, these are considerably magnified by the same charges.

## CHAPTER IX.

### TAKING UP AND DELIVERY OF SECURITIES.

IN the purchase and sale of Securities it is now usual to settle for them immediately on receipt of contract.

The settling days on the Stock Exchange prior to the war were fixed at the middle and the end of each month, but dealings are, however, now for cash.

Regarding shares and other stocks transferable by deed, there is a mistaken belief among investors that they are bound to receive delivery, that is, the transfer deed for signature, on the settling day. This is not so, ten days being allowed for this purpose, although of course it generally happens that delivery is promptly made.

Should there be further delay at the

expiration of the ten days, the buyer is entitled to "buy in," that is, purchase the shares in the market at whatever price that may be necessary, the seller who has failed to deliver being liable for any difference between the price paid and the price of the original purchase.

Then again, there is often a delay of a month or more between the lodgment of the transfer for registration and the issue of a certificate, which can only be finally signed and sealed at a meeting of the Board of Directors. From the moment of purchase, however, the buyer is the proprietor of the shares, and the receipt given for the transfer when lodged for registration is complete proof of ownership. The buyer is, from the moment of purchase, entitled to all rights and dividends. The transfer receipt is usually held by the broker or agent until the collection of the certificate, but it is open to any purchaser if he so desires to retain the receipt and personally collect the

certificate. It is, however, part of a broker's business to undertake this service for his clients. Bonds, Debentures, and all scrip to bearer must be delivered on the settling day.

## CHAPTER X.

### PAYMENT IN FULL UNDER DISCOUNT.

It is a common practice in the case of new issues to give applicants for bonds and shares the option of paying up the entire amount on allotment at a discount of 4 or 5 per cent. This means that interest at the rate named is paid on those instalments which have not become due for the period intervening between the payment and the due date.

This is, perhaps, not a matter which at first glance appears to call for explanation, but there are many investors who are not too well versed in the details of finance, and the exact meaning of the phrase "payment in full may be made on allotment under discount of 5 per cent." is not always clearly understood. It has often, for instance, been

taken to imply that the stock could be secured at 5 per cent. under the price of issue, which is, of course, absurd. The precise advantage of paying in full for stock on allotment can best be explained by taking an example.

In an issue of a $7\frac{1}{2}$ per cent. stock at 90, the payments on each £100 stock fell due as follows :—

£5 on application.
£25 on July 12th, 1920.
£30 on August 19th, 1920.
£30 on October 5th, 1920.

£90

Applicants being given the option of paying in full on or after July 12th under discount of 5 per cent. That means that at the time of payment of the £25, due on July 12th, the remaining £60, *i.e.* £30 due on August 19th and £30 due on October 5th, could be paid in full, and that interest on these amounts would be paid at the rate

of 5 per cent. per annum,—that is, the applicant would receive interest at the rate of 5 per cent. on £30 from July 12th to August 19th, the due date, and on the remaining £30 from July 12th to October 5th, when the final payment became due. In effect a rate of 5 per cent. per annum is paid on the money paid in advance.

An investor who is in possession of money for which there is no immediate use of course does well to take advantage of the discount offered for payment in full.

## CHAPTER XI.

### CONCLUSION.

This book is an effort to place before the investor the result of long study and experience, in the hope that it may be found useful in helping him to safeguard his capital, and I have endeavoured to write as simply as possible, so that all who read may understand, and, I hope, profit.

In summing up, I should again like to emphasise various facts which I have endeavoured to demonstrate.

In following a profession or conducting a business, the majority of men spare no effort and lose no opportunity of achieving success. But it is astonishing how careless and how lax they often are, firstly in choosing and secondly in guarding their investments. It is sufficient that a security is

recommended by some one who is supposed to be "in the know" for them to buy and hold it through good report or ill, pleased if it should turn out well, and if otherwise, content to wait in the hope that it will soon come right again.

Therefore, my advice to investors is—select your investments from the beginning with reason and method, and when selected carefully watch and guard them. Ten or more years ago the idle or lazy man contented himself with the "calm serenity of the three per cents.," but where is that calm serenity to-day? The difficulty of obtaining funds for the war caused restrictions to be made by the Government. For instance, no issues could be made without having first of all obtained permission,—seldom granted—but, shortly after the Armistice, these restrictions were removed, and aided by the abnormal speculative interest then present, an unprecedented number of new companies were brought

out with more or less success. Many old companies needing fresh capital took advantage of the favourable opportunity to get together the wherewithal to offer a strong opposition to the competition the new ones created, and in order to entice the capital their way, offered very large yields on Preference shares—10 per cent. being quite common. Naturally enough, those carrying the highest yield were most in demand, and the prices of the old, sound securities fell away until they yielded as much as 8 and even 9 per cent. Credit became much dearer, and the Bank rate rose to 7 per cent., with a consequent payment by them of 5 per cent. on deposit accounts.

This rate is, however, quickly falling, and time alone will tell whether the new companies can earn sufficient to pay the high rates of interest they have contracted to pay. At any rate, the depression has caused some attention to again be paid to

sound Investment securities, and rises in prices are slowly but surely taking place. Investors having money on deposit receipt should now study closely lists of sound securities, since many of them now yield a return which cannot be expected in future years. The present is the investor's opportunity. Income tax will be reduced by degrees, and the gradual withdrawal of Treasury Notes and the re-appearance of gold and silver coinage will be a sign of returning good days.

The day of the 3 per cent. gilt-edged security is past, and the investor must cast his eyes over all the world. "Gilt-edged" has become a misnomer, since these securities as a class have experienced the heaviest fall during the past years of any stocks quoted on the Exchanges of the world.

The changed conditions experienced after the war have brought about a raising of the value of money, and the ever increasing demand for capital the world over has not

only vastly widened the field open to investors, but made it possible to secure a far higher yield of income, allied with every element of safety, than was formerly possible.

Each year a large number of new issues of high class securities are offered to the public, which give an average yield of at least 6, 7 or 8 per cent., and it is not therefore altogether surprising that old-fashioned low yielding stocks should have suffered so severely during recent years. Capital is in greater demand, and stocks of the so called gilt-edged variety with fixed rates of interest from 2½ to 4 per cent., although secure in regard to payment of interest, leave much to be desired from the point of view of stability of capital. How many investors have realised this during, say, the past decade? Then again, the higher cost of living has forced investors to consider the question of increase of income, and the ever increasing bulk of capital that finds its way into adequate and

even generous yielding high class foreign stocks shows that many have found the solution of this difficulty. There are, however, large numbers who have been content to sit still and see their capital dwindle away. The field is still open and becoming wider and wider as the years go on, and this cannot fail to continue to tell heavily on old-fashioned low yielding stocks. It is only by an intelligent appreciation of the altered conditions, and the commercial, economical and financial progress of the times, that capital can be invested with the maximum of profit and safety.

Not entirely at home, and not in the old-fashioned method, must investments be made in order to have a list on the safest possible basis, but the capital must be spread over the habitable globe.

When one looks back upon the events of the past decade and considers their effect on the political and economical aspect of the world, one cannot but realise how

vastly the possibility of making extended investments has increased.

Consider the enormous possibilities of our own colonies,—Canada, Australia and New Zealand. It is not for me to touch upon politics, but whatever party be in power in this country, and no matter how rudely doors may be said to be slammed, the genius of the race will overcome all obstacles to progress, and these colonies must increase in wealth, power and importance, year by year becoming a wider outlet for our overcrowded population, and for our ever-increasing capital. The late Lord Salisbury gave the sound advice, "study large maps," and I think it was Robert Lowe who once in the House of Commons, in illustrating the vastness and richness of the United States, made the remark that the whole population of the United Kingdom could be placed in the Mississippi valley and be self-supporting. America for instance is a giant, but a very young giant, and in its growth there will

constantly be fresh developments, forming excellent opportunities for the investor.

Therefore, read your geographies, study large maps, take an intelligent interest in the world's politics, and *spread your investments.*

And having done this, watch your interests carefully, or if you have not time to do so, or have not had the business training to enable you to do so, engage the services of some one who can. You consult your doctor in order to preserve your health, why not take expert advice in order to protect your means of livelihood ?

Do not be tempted to purchase a security which, owing to the smallness of the yield it gives on the money invested, seems to be safe. I say "seems," because in all probability it will turn out, as has been shown by examples, to be a delusion and a snare. As a rule avoid securities which are selling at a high premium, which premium only represents a sentimental value, and not the real and original par value of the stock.

Do not be afraid to invest in securities even should they not be quoted in official lists; often the most valuable securities are not so quoted, owing to their capital having been placed privately, or owing to some technicality in their Articles of Association which does not conform to the requirements of the Stock Exchange.

When you receive your securities, whether Bonds, Debentures or Certificates, before depositing them with your banker, enter them carefully together with their numbers and all other particulars in a book provided for the purpose, which book you must keep constantly before you; watch the prices and study the Reports and Balance-sheets, and check the receipt of your dividends.

If the investor will take a reasonable amount of trouble he may without difficulty obtain a satisfactory income, with Safety of Capital.

NOTE.—*Before making a Trustee Clause for a will read Chapter VI. on Trust Investments.*

# APPENDIX.

## INVESTMENTS BY TRUSTEES.

### ENGLAND AND IRELAND.

Under section 1 of the Trustee Act, 1893, Trustees may, unless expressly forbidden by the Trust-Deed, invest in the following :—

(*a*) Government Securities, Public Funds or Parliamentary Stocks of the United Kingdom; (*e*) Securities, the interest of which is guaranteed by Parliament; and (*d*) Indian Government Securities.

(*c*) Bank of England and Bank of Ireland Stocks.

(*f*) Metropolitan Board of Works Stock, London County Council Stock, and Metropolitan Police District Debenture Stock.

(*g*) Debenture, Rent Charge, Guaranteed or Preference Stocks of any Railway in the United Kingdom, if the Dividend for the last ten years has been not less than 3 per cent. per annum on the Ordinary Stock.

(*h*) Stock of any Railway or Canal Company, leased for not less than 280 years at a fixed rent to any Railway Company under

(*i*) Debenture Stock of any Indian Railway, the interest on which is paid or guaranteed, or (*k*) other Stock on which a fixed or minimum dividend in sterling is guaranteed by the Indian Government, or upon the capital of which the interest is so guaranteed.

(*j*) "B" Annuities of the Eastern Bengal, East Indian and Scinde, Punjaub and Delhi Railways, and any like Annuities, charged on the Revenue of India, also in "D" Deferred Annuities and "C" Annuities of the East Indian Railway.

(*l*) Debenture, Guaranteed or Preference Stock of any incorporated Water Company in Great Britain, which has for the last ten years paid a dividend of not less than 5 per cent. on its Ordinary Stock.

(*m*) Municipal Stocks of towns of over 50,000 inhabitants or County Council Stocks issued under Act of Parliament or Provisional Order.

(*n*) Water Trust Stocks of towns or compulsory districts of over 50,000 inhabitants where assessment for each of the last ten years has not exceeded 80 per cent. of the amount authorised.

(*o*) Stocks authorised for investment of funds under the control of High Courts of Justice.

And may also from time to time vary any such investment.

Section 2, sub-section (1), permits the purchase at a

premium of redeemable stocks, but sub-section (2) prohibits those stocks otherwise available under sub-sections (*g*), (*i*), (*k*), (*l*) and (*m*) of section 1, which are liable to redemption at par or other fixed rate within fifteen years of the date of purchase, or which stand at a premium exceeding 15 per cent. above the redemption value.

### Colonial Stock Act, 1900.

Section 2 of this Act empowers a Trustee empowered under the Trustee Act, 1893, or the Trusts (Scotland) Amendment Act, 1884, to invest in any Colonial Stock registered in the United Kingdom in accordance with the provisions of the Colonial Stock Acts, 1877 and 1892, as amended by this Act, provided such stocks have been notified in the London and Edinburgh Gazettes as having been approved by the Treasury, subject to the restrictions contained in section 2, sub-section (2), of the Trustee Act, 1893.

*See Chapter VI., page 76, in regard to Trustee Investments.*

## SCOTLAND.

1. At Common Law, Trustees may invest the Trust Funds in any Securities authorised by the Trust-Deed.

2. By the Trusts (Scotland) Amendment Act of 1884, Trustees and Tutors, Curators or Factors may,

unless the contrary is provided in the Trust-Deed, invest the Trust Funds in

Government Stocks and Public Funds or Securities of the United Kingdom.

Stock of the Bank of England.

Securities, the interest of which is guaranteed by Parliament.

Debenture Stock of any Incorporated Railway Company in Great Britain.

Preference, Guaranteed Lien, Annuity or Rent Charge Stock, the dividend on which is not contingent on the year's profits of any Railway Company in Great Britain which has paid for the last ten years a dividend on its Ordinary Stock.

Municipal Corporation Stocks or Annuities, the interest of which is secured by rates or taxes levied under Act of Parliament.

East India Stock or Public Funds or Bonds not payable to bearer, of any Colony of the United Kingdom approved by Court of Session.

Feu-Duties or Ground Annuals.

Or they may lend the Funds on the security of

(*a*) The above Stocks.

(*b*) Real or Heritable Security in Great Britain.

(*c*) Debentures or Mortgages of Incorporated Railway Companies in Great Britain.

(*d*) Municipal Corporation Bonds when secured on Rates or Taxes.

(*e*) Indian Railway Stock, Debentures or Bonds on which interest is permanently guaranteed by Indian Government, and payable in sterling money in Great Britain.

3. By the Trusts (Scotland) Act, 1898, Trustees may, unless specially prohibited by the terms of the trust, invest the Trust Funds :—

(*a*) In the purchase of Redeemable Stock issued, under the Local Authorities Loans (Scotland) Acts by any local authority in Scotland.

(*b*) In loans on Bonds, Debentures or Mortgages secured on any rate or tax levied under the authority of any Act of Parliament by any local authority in Scotland authorised to borrow money on such security.

## Colonial Stock Act, 1900.

Section 2 of this Act permits a Trustee empowered under the Trustee Act, 1893, or the Trusts (Scotland) Amendment Act, 1884, to invest in any Colonial Stock registered in the United Kingdom in accordance with the provisions of the Colonial Stock Acts, 1877 and 1892, as amended by this Act, provided such stocks have been notified in the London and Edinburgh Gazettes as having been approved by the Treasury, subject to the restrictions contained in section 2, subsection (2), of the Trustee Act, 1893.

# TABLES FOR CALCULATING THE YIELDS AFFORDED BY SECURITIES.

## BONDS AND DEBENTURES.

### Interest Rate.

| PRICE. | 3½ per cent. *Yield.* | 4 per cent. *Yield.* | 4½ per cent. *Yield.* | PRICE | 5 per cent *Yield.* | 5½ per cent *Yield.* | 6 per cent. *Yield* | 7 per cent. *Yield.* | PRICE. |
|---|---|---|---|---|---|---|---|---|---|
| | £ s. d. | £ s. d. | £ s d. | | £ s d. | £ s d. | £ s d | £ s. d. | |
| 64 | 5 9 6 | 6 5 0 | 7 0 6 | 64 | 7 16 3 | 8 12 0 | 9 7 6 | 10 19 0 | 64 |
| 65 | 5 7 6 | 6 8 0 | 6 18 6 | 65 | 7 14 0 | 8 9 0 | 9 4 6 | 10 15 0 | 65 |
| 66 | 5 6 0 | 6 1 3 | 6 16 6 | 66 | 7 11 6 | 8 6 6 | 9 2 0 | 10 12 0 | 66 |
| 67 | 5 4 6 | 5 19 6 | 6 14 6 | 67 | 7 9 3 | 8 4 0 | 8 19 0 | 10 9 0 | 67 |
| 68 | 5 3 0 | 5 17 9 | 6 12 3 | 68 | 7 7 0 | 8 2 0 | 8 16 6 | 10 6 0 | 68 |
| 69 | 5 1 6 | 5 16 0 | 6 10 6 | 69 | 7 5 0 | 7 19 6 | 8 14 0 | 10 3 0 | 69 |
| 70 | 5 0 0 | 5 14 3 | 6 8 6 | 70 | 7 3 0 | 7 17 3 | 8 11 6 | 10 0 0 | 70 |
| 71 | 4 18 6 | 5 12 9 | 6 6 9 | 71 | 7 1 0 | 7 15 0 | 8 9 9 | 9 17 0 | 71 |
| 72 | 4 17 3 | 5 11 0 | 6 5 0 | 72 | 6 19 0 | 7 12 9 | 8 6 0 | 9 14 6 | 72 |
| 73 | 4 16 0 | 5 9 6 | 6 3 3 | 73 | 6 17 0 | 7 10 9 | 8 4 6 | 9 12 0 | 73 |
| 74 | 4 14 6 | 5 8 0 | 6 1 6 | 74 | 6 15 3 | 7 8 9 | 8 2 3 | 9 9 0 | 74 |
| 75 | 4 13 3 | 5 6 6 | 6 0 0 | 75 | 6 13 6 | 7 6 6 | 8 0 0 | 9 6 6 | 75 |
| 76 | 4 12 0 | 5 5 3 | 5 18 6 | 76 | 6 11 6 | 7 4 9 | 7 17 9 | 9 4 0 | 76 |
| 77 | 4 11 0 | 5 3 9 | 5 16 9 | 77 | 6 9 9 | 7 2 9 | 7 15 9 | 9 2 0 | 77 |
| 78 | 4 9 9 | 5 2 6 | 5 15 6 | 78 | 6 8 3 | 7 1 0 | 7 13 9 | 8 19 6 | 78 |
| 79 | 4 8 6 | 5 1 3 | 5 14 0 | 79 | 6 6 6 | 6 19 3 | 7 11 9 | 8 17 0 | 79 |
| 80 | 4 7 6 | 5 0 0 | 5 12 6 | 80 | 6 5 0 | 6 17 6 | 7 10 0 | 8 15 0 | 80 |
| 80½ | 4 7 0 | 4 19 6 | 5 12 0 | 80½ | 6 4 3 | 6 16 9 | 7 9 0 | 8 13 9 | 80½ |
| 81 | 4 6 6 | 4 18 9 | 5 11 3 | 81 | 6 3 6 | 6 15 9 | 7 8 3 | 8 13 0 | 81 |
| 81½ | 4 6 0 | 4 18 3 | 5 10 6 | 81½ | 6 2 9 | 6 15 0 | 7 7 3 | 8 11 9 | 81½ |
| 82 | 4 5 3 | 4 17 6 | 5 9 9 | 82 | 6 2 0 | 6 14 3 | 7 6 6 | 8 10 6 | 82 |
| 82½ | 4 5 0 | 4 17 0 | 5 9 0 | 82½ | 6 1 3 | 6 13 6 | 7 5 6 | 8 9 9 | 82½ |
| 83 | 4 4 3 | 4 16 6 | 5 8 9 | 83 | 6 0 6 | 6 12 6 | 7 4 6 | 8 8 6 | 83 |
| 83½ | 4 4 0 | 4 16 0 | 5 7 6 | 83½ | 5 19 9 | 6 11 9 | 7 3 9 | 8 7 9 | 83½ |
| 84 | 4 3 3 | 4 15 3 | 5 7 3 | 84 | 5 19 0 | 6 11 0 | 7 2 9 | 8 6 6 | 84 |
| 84½ | 4 3 0 | 4 14 9 | 6 6 6 | 84½ | 5 18 3 | 6 10 3 | 7 2 0 | 8 5 9 | 84½ |
| 85 | 4 2 3 | 4 14 3 | 5 5 9 | 85 | 5 17 6 | 6 9 6 | 7 1 3 | 8 4 6 | 85 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| 85½ | 4 2 0 | 4 13 6 | 5 5 3 | 85½ | 5 17 0 | [illegible] | [illegible] | [illegible] | [illegible] |
| 86 | 4 1 6 | 4 13 0 | 5 4 6 | 86 | 5 16 3 | 6 8 0 | 6 19 6 | 8 3 0 | 86 |
| 86½ | 4 1 0 | 4 12 6 | 5 4 0 | 86½ | 5 15 6 | 6 7 3 | 6 18 9 | 8 1 9 | 86½ |
| 87 | 4 0 6 | 4 12 0 | 5 3 6 | 87 | 5 15 0 | 6 6 6 | 6 18 0 | 8 1 0 | 87 |
| 87½ | 4 0 0 | 4 11 6 | 5 3 0 | 87½ | 5 14 3 | 6 5 9 | 6 17 3 | 8 0 0 | 87½ |
| 88 | 3 19 6 | 4 11 0 | 5 2 3 | 88 | 5 13 6 | 6 5 0 | 6 16 6 | 7 19 0 | 88 |
| 88½ | 3 19 0 | 4 10 6 | 5 1 9 | 88½ | 5 13 0 | 6 4 6 | 6 15 6 | 7 18 3 | 88½ |
| 89 | 3 18 9 | 4 9 9 | 5 1 3 | 89 | 5 12 6 | 6 3 6 | 6 14 9 | 7 17 6 | 89 |
| 89½ | 3 18 3 | 4 9 6 | 5 0 6 | 89½ | 5 11 9 | 6 3 0 | 6 14 0 | 7 16 6 | 89½ |
| 90 | 3 17 9 | 4 8 9 | 5 0 0 | 90 | 5 11 0 | 6 2 3 | 6 13 6 | 7 15 6 | 90 |
| 90½ | 3 17 3 | 4 8 6 | 4 19 6 | 90½ | 5 10 6 | 6 1 6 | 6 12 6 | 7 14 9 | 90½ |
| 91 | 3 16 9 | 4 8 0 | 4 19 0 | 91 | 5 9 9 | 6 0 9 | 6 11 9 | 7 13 6 | 91 |
| 91½ | 3 16 6 | 4 7 6 | 4 18 6 | 91½ | 5 9 3 | 6 0 3 | 6 11 0 | 7 13 0 | 91½ |
| 92 | 3 16 0 | 4 7 0 | 4 17 0 | 92 | 5 8 6 | 5 19 6 | 6 10 6 | 7 12 0 | 92 |
| 92½ | 3 15 9 | 4 6 8 | 4 17 6 | 92½ | 5 8 0 | 5 19 0 | 6 9 9 | 7 11 8 | 92½ |
| 93 | 3 15 3 | 4 6 0 | 4 16 9 | 93 | 5 7 6 | 5 18 3 | 6 9 0 | 7 10 6 | 93 |
| 93½ | 3 14 9 | 4 5 6 | 4 16 3 | 93½ | 5 7 0 | 5 17 6 | 6 8 3 | 7 9 9 | 93½ |
| 94 | 3 14 6 | 4 5 3 | 4 15 9 | 94 | 5 6 6 | 5 17 0 | 6 7 6 | 7 9 0 | 94 |
| 94½ | 3 14 0 | 4 4 9 | 4 15 3 | 94½ | 5 6 0 | 5 16 6 | 6 7 0 | 7 8 3 | 94½ |
| 95 | 3 13 9 | 4 4 3 | 4 14 9 | 95 | 5 5 3 | 5 15 9 | 6 6 3 | 7 7 6 | 95 |
| 95½ | 3 13 3 | 4 3 9 | 4 14 3 | 95½ | 5 4 9 | 5 15 3 | 6 5 9 | 7 6 6 | 95½ |
| 96 | 3 13 0 | 4 3 6 | 4 13 9 | 96 | 5 4 3 | 5 14 6 | 6 5 0 | 7 6 0 | 96 |
| 96½ | 3 12 6 | 4 3 0 | 4 13 3 | 96½ | 5 3 9 | 5 14 0 | 6 4 3 | 7 5 0 | 96½ |
| 97 | 3 12 3 | 4 2 6 | 4 12 9 | 97 | 5 3 0 | 5 13 6 | 6 3 9 | 7 4 6 | 97 |
| 97½ | 3 12 0 | 4 2 0 | 4 12 3 | 97½ | 5 2 6 | 5 13 0 | 6 3 0 | 7 3 6 | 97½ |
| 98 | 3 11 6 | 4 1 6 | 4 11 9 | 98 | 5 2 0 | 5 12 3 | 6 2 6 | 7 3 0 | 98 |
| 98½ | 3 11 0 | 4 1 3 | 4 11 6 | 98½ | 5 1 6 | 5 11 9 | 6 2 0 | 7 2 3 | 98½ |
| 99 | 3 10 9 | 4 0 9 | 4 11 0 | 99 | 5 1 0 | 5 11 3 | 6 1 3 | 7 1 6 | 99 |
| 99½ | 3 10 3 | 4 0 6 | 4 10 6 | 99½ | 5 0 6 | 5 10 6 | 6 0 6 | 7 0 9 | 99½ |
| 100 | 3 10 0 | 4 0 0 | 4 10 0 | 100 | 5 0 0 | 5 10 0 | 6 0 0 | 7 0 0 | 100 |
| 101 | 3 9 3 | 3 19 3 | 4 9 3 | 101 | 4 19 0 | 5 9 0 | 5 18 9 | 6 18 6 | 101 |
| 102 | 3 8 9 | 3 18 6 | 4 8 3 | 102 | 4 18 0 | 5 7 9 | 5 17 6 | 6 17 6 | 102 |
| 103 | 3 8 0 | 3 17 6 | 4 7 6 | 103 | 4 17 0 | 5 6 9 | 5 16 6 | 6 16 0 | 103 |
| 104 | 3 7 3 | 3 17 0 | 4 6 6 | 104 | 4 16 3 | 5 5 9 | 5 15 6 | 6 14 6 | 104 |
| 105 | 3 6 9 | 3 16 3 | 4 5 9 | 105 | 4 15 3 | 5 4 9 | 5 14 3 | 6 13 6 | 105 |

IV. Complete Lists of Investments are advised upon *free of charge*, and are treated in a strictly private and confidential manner.

V. Investors are invited to send in their Lists of Investments, which, after being reported on, are filed and indexed, and when any information regarding the securities comes to hand, this is communicated to the holder.

VI. ***No speculative business of any kind is undertaken,*** and no Stocks or Shares bought or sold will be carried over.

VII.—Great trouble has been taken in obtaining the Balance-Sheets and Reports of every Company, and this makes it possible to criticise any Security at a moment's notice.

VIII.—Intending Clients are cordially invited to call on matters of Investment.

**Full business particulars will be sent on application to the Secretary.**

**LLOYDS BANK, LIMITED,**
**16 St. James's Street, London, S.W. 1.**

**LONDON JOINT CITY & MIDLAND BANK, LIMITED,**
**St. James's Street, London, S.W. 1.**

**NATIONAL PROVINCIAL & UNION BANK OF ENGLAND, LIMITED,**
**St. James's Street, London, S.W. 1.**

## PRESS NOTICES—*Continued.*

A useful publication for investors is being issued by Messrs. Mortimer, Harley & Co., entitled "The Investor's Simplified Account Book."—*Daily News.*

Messrs Mortimer, Harley & Co. have published a convenient indexed account book for the use of investors.—*Daily Telegraph.*

This is a practical aid both to investors and operators on the Stock Exchange, which should be highly appreciated, its object being to enable investors and speculators to watch the fluctuations in value of their securities, to obtain a clear view of their position at any given moment. The arrangement of the book is well calculated to further this end. So much so, indeed, that the couple of pages entitled "Explanation," which serves as a sort of "Directions for Use" at the commencement of the volume, seem more or less superfluous.—*Financial Times.*

The "Investor's Simplified Account Book" has been published by Mortimer, Harley & Co. The work will doubtless be found useful to investors who are fortunate enough to own a good many securities.—*Standard.*

Messrs. Mortimer, Harley & Co. have published a very useful book for investors, entitled "The Investor's Simplified Account Book." In this investors can keep a record of their holdings, and see at a glance their actual position in regard thereto.—*Sunday Times.*

The investor who likes to watch his securities and keep an account of his dividends will find "The Investor's Simplified Account Book" of great value. It is designed by Mr. E. M. Harley, and published by Messrs Mortimer, Harley & Co. —*Westminster Gazette.*

Another handy book is "The Investor's Simplified Account Book," designed by E. M. Harley. It is divided into various sections, such as "Securities held," "Securities sold," "Dividends" and so forth. The arrangement is quite simple, but at the same time contains all that is necessary to enable investors to carefully watch their securities and keep account of dividends, &c.—*Morning Post*, October 7, 1907.